2002/2003: Report 10

OFFICE OF THE

Auditor General of British Columbia

Adopting Best Practices In Government Financial Statements – 2001/2002

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Table of Contents

Auditor General's Overview 1

Introduction

This Report is Our Update on Government's Adoption of Best Practices in Financial Statement Reporting 5

We Acknowledge Government's Focus on Adopting Best Practices in Its Financial Accounting and Reporting 6

Part 1: Financial Statement Issues

All Issues We Come Across Are Addressed But Only Few Result in a Reservation . 11

In British Columbia, the Government Reporting Entity Is the Most Important Financial Statement Issue 11

The Reservation on Presentation of Net Liabilities Is No Longer Needed 17

We Discuss Other Significant Issues and Recommend Improvements 17

We Discuss the Financial Effects of !mportant Decisions on the Summary Financial Statements 22

Response from the Ministry of Finance 39

Part 2: Computer Systems Supporting Government's Financial Activities

Introduction 49

What is the MVS Environment? 50

Background 50

Purpose of the Audit 51

Scope of the Audit 52

Overall Conclusion 52

Detailed Findings and Conclusions 54

Response from the Ministry of Management Services 89

Appendices

A Summary Financial Statement Audit Methodology 93

B Government Organizations Included in the 2001/2002 Summary Financial Statements, and Their Auditors 95

C The 2001/2002 Summary Financial Statements 97

D Office of the Auditor General: 2002/03 Reports Issued to Date 149

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As well, more than 40 other staff of the Office took part in the audit of the Summary Financial Statements and in the separate audits of various government organizations that are included in the government reporting entity.

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of British Columbia

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2002/2003: Report 10 on Adopting Best Practices in Government Financial Statements.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
March 2003

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

Auditor General's Overview

Wayne Strelioff, CA
Auditor General

For financial accounting and reporting, the government is committed to fully adopting—by April 1, 2004—the Canadian generally accepted accounting principles for senior governments. These principles are set by the Canadian Institute of Chartered Accountants (CICA). This commitment represents significant progress, and for that I commend and strongly support the government in its decision.

Broadly speaking, Canadian generally accepted accounting principles (GAAP) cover two main areas: *accounting policies* (for example, guidance on which organizations to include in consolidated financial statements and how to account for the many and varied transactions that occur throughout the year); and *reporting standards* (which set out objectives to be followed in the preparation and presentation of the financial statements). In today's world, where public trust in corporate business and the institutions of government is low, adopting best practices in financial accounting and reporting, i.e adopting GAAP fully, is an important step forward.

My purpose in this report is to bring Members of the Legislative Assembly and the public up to date on government's progress in adopting GAAP in both accounting and reporting.

In adopting GAAP for its accounting policies, I am pleased to say that the government has made significant progress. It already follows most of the GAAP requirements, the main exception being that related to the composition of the reporting entity—an issue which it has been studying recently. The composition of the reporting entity is a matter that, in my view, is the most important one the government must finalize. I say this because I believe the Summary Financial Statements of the Province should provide a full accounting of the financial affairs and resources for which the government is responsible. At present they do not.

For the 2001/02 fiscal year, I expressed a qualified audit opinion on the Summary Financial Statements because they did not include the complete planned and actual financial results of schools, universities, colleges and hospitals. In my opinion, the government is responsible for the financial affairs and resources of these organizations, and must therefore be accountable for the overall state of their finances.

I understand that the Comptroller General and members of the government's accounting policy advisory committee share my views on this issue—for the most part. Universities, they believe, should remain excluded from the government reporting entity. It is my view, however, that the government controls the financial affairs and resources of the public universities in British Columbia, and so their financial results should be accounted for as part of the government reporting entity.

As for the reporting side of GAAP, the government has made significant progress here as well. The financial statements are now timely and provide useful information by major segment about the assets, liabilities, revenues and expenses of Crown corporations. GAAP directs that "Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness." I believe that adopting GAAP in terms of providing relevant information, and in a way that maximizes its usefulness, is as important as adopting the accounting policies required by GAAP. For this reason, I offer some suggestions and recommendations in my report as to how government can improve the quality of its financial statements, such as by improving its financial reporting by segment of responsibility.

Other recommendations I have made in my report address the accounting polices used in school districts, the consistency of distributing interest expense, and the consistency of reporting contingent liabilities. I also comment on six important transactions that took place in the 2001/02 fiscal year. This information will, I believe, help legislators and the public better understand these transactions and how they affect the overall financial results of the government.

In the second part of this report, I include our assessment of a major computer operating system, or platform, called MVS. This platform supports many of the government's important financial and operational systems. A very high level of security and control is thus expected to be at work to minimize risks to a manageable level. Our audit was designed to determine if management had set appropriate control objectives and had established procedures to meet those objectives. The control objectives were derived from guidelines set out by the CICA.

We found that all of the procedures outlined by management were suitably designed to meet the control objectives, and most procedures were in place. In some cases, however, actual practice did not follow the intended procedures. Because of these weaknesses, we concluded that not all of the control objectives had been met, meaning that the actual risk of a security breach occurring was higher than that considered acceptable. We are pleased that the Ministry of Management Services is addressing all of the weaknesses we found.

In closing, I wish to acknowledge and thank all those who assisted and cooperated with my Office during the preparation of this report, and during the course of our work on the various audits and assessments that led to the matters reported herein.

This Report is Our Update on Government's Adoption of Best Practices in Financial Statement Reporting

Examination of the Summary Financial Statements of the Government of the Province of British Columbia is a significant focus of the work of our Office. These statements are a main component of financial accountability and transparency for the range of activities for which the government is responsible.

In examining these statements, we have two objectives. First is to provide assurance to the citizens of British Columbia that the statements present fairly the financial position and results of operations of the government. Second is to comment on the government's practices in bringing its Summary Financial Statements together and presenting them to the public.

We met our assurance objective in July 2002 when we issued our audit report on the Summary Financial Statements of the Province which was published with them. In that report we said that those statements, with some important exceptions, present the government's finances fairly in accordance with the accounting policies that are generally accepted in Canada for such statements. The matter that caused us concern was about the completeness of the Summary Financial Statements, as outlined in our report (and reproduced here in the sidebar).

This current report is intended to brief members of the Legislative Assembly and the public about the government's progress in adopting best practices in its financial accounting and reporting. Where needed, recommendations are also offered for improving those practices.

We have organized the report in two parts. Part 1 is a commentary on issues related to the statements. Part 2 is our audit report on the information technology that supports many important government financial activities.

In note 1 to these financial statements, the Government reports that its stated accounting policies are not fully consistent with generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants. Consequently, these financial statements do not include the complete planned and actual financial results of school districts, universities, colleges and institutes, and health care organizations.

Had a complete accounting been provided as at March 31, 2002, it would be expected that financial assets increase by $2,828 million ($2,531 million at March 31, 2001), liabilities increase by $3,102 million ($2,535 million at March 31, 2001), non-financial assets increase by $3,129 million ($2,728 million at March 31, 2001), and the accumulated deficit decrease by $2,855 million ($2,724 million at March 31, 2001). Similarly, for the year ended March 31, 2002, revenues increase by $2,214 million ($1,841 million for 2001), expenses increase by $1,989 million ($1,787 million for 2001), and the annual deficit decrease by $225 million (surplus increase by $54 million for 2001).

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We Acknowledge Government's Focus on Adopting Best Practices in Its Financial Accounting and Reporting

Just as the financial statements of large corporations include the results of all their operations world-wide, so do the Summary Financial Statements, by definition, include the results of all the government's operations for its ministries, Crown corporations and other organizations.

Publishing the annual Summary Financial Statements is the result of a significant year-round effort. Many information systems process individual transactions daily and then combine them into accounts and balances that are subsequently used in creating the provincial statements. In processing transactions and accounting for them the governments are diligent in ensuring the integrity of the financial information they publish. Adopting best practices based on the Canadian generally accepted accounting principles (GAAP) helps the governments achieve this goal.

All senior governments in Canada publish Summary Financial Statements. However, not all follow the same practices in every aspect of producing them. For example, the financial reporting regime across Canada is the same, but it is not applied uniformly. While this situation does not always make it possible to compare results, it does provide us with a range of practices against which we can compare ours and determine best practices.

Selecting the best practices requires appropriate interpretation of GAAP. Therefore, it calls for the exercising of significant professional judgement. To ensure objectivity in our judgement, we consider the following in our decisions.

- *The generally accepted accounting principles of the Canadian Institute of Chartered Accountants (CICA).* These principles, particularly those developed by the Public Sector Accounting Board (PSAB) of the CICA, provide us with a common baseline for accounting and reporting.
- *The CICA's publications, particularly the Information Technology Control Guidelines.* These guidelines give us a benchmark for assessing control practices, especially for computer-based systems and processes.

- *The views of the members of the Canadian Council of Legislative Auditors.* These views provide us with the Canadian context.

Today, the British Columbia government is either currently following or has committed to adopt most of Canada's best practices in its financial accounting and reporting. For example:

- The Summary Financial Statements are being published earlier each year, and the government is working towards issuing them within three months of the year-end.
- The financial statements are presented on the expense basis of accounting, fully recognizing the cost of physical assets over their useful lives.
- The government is committed to fully adopting the Canadian Generally Accepted Accounting Principles in 2004/05. We expect schools, universities, colleges and hospitals soon to be consolidated in the provincial financial plans and statements.
- The corporate accounting system is being continually improved to benefit from facilities afforded by an enterprise-wide system.

We are pleased with the government's focus on improving its practices in bringing the Summary Financial Statements together. We also recognize, however, that much still needs to be done.

Part 1:
Financial Statement Issues

All Issues We Come Across Are Addressed But Only a Few Result in a Reservation

An entity's financial statements are prepared by management which, in the case of the Province, is the government. The entity's auditor attaches to those statements an independent certification of the information presented in them. If, in the auditor's opinion, the financial statements do not give a fair presentation and the difference between the actual results and the reported results is significant, then the report is released with a reservation. The purpose of the reservation is to alert readers of the financial statements to the auditor's conclusions and, where possible, to provide sufficient information so readers can see for themselves what the problem is.

In any financial statement audit, it is inevitable that we take issue with the adequacy of control processes and the accuracy of financial transactions or the way they are presented. We don't expect to find every error and all control weaknesses, but we do our audit work so that we can be confident we will discover any significant ones. From those we find, we need to decide if one or more of them (individually or in aggregate) is sufficiently important that, if not corrected, it could undermine the integrity of the statements. In such a case we explain the issue in our reservation. And, to resolve the issue, we discuss the matter with officials of the government during the audit. Findings are only reported publicly if the issues are significant and not corrected, or if corrected, they could provide a lesson to improve future practice.

In British Columbia, the Government Reporting Entity Is the Most Important Financial Statement Issue

The financial reporting universe of an organization is often referred to as its reporting entity. The government reporting entity does not only define the scope of activities covered by the Summary Financial Statements, but it has also been used by governments to notify the public about what is—or is not—controlled by the government.

For financial reporting purposes, the concept of *control* presents a sound logical argument for what should be included in an entity.

It is generally accepted that a government should not be held accountable for organizations it does not control. This is PSAB's view. The government reporting entity, says PSAB, should comprise the organizations that are controlled by the government.

In British Columbia, we have always agreed with the government on what it included in its financial reporting entity, but we have not agreed with all exclusions it made. For many years we held that schools, universities, colleges, hospitals and two small Crown corporations (British Columbia Investment Management Corporation and British Columbia Pension Corporation) should be included in the government reporting entity, and that their operations should be consolidated in the Summary Financial Statements. We also discussed with government the advisability of including in the reporting entity the Workers' Compensation Board. We believe that none of the mentioned organizations has unilateral power to act independently and govern their own financial and operating strategic policies. Rather, they are substantially controlled by legislation and affected by the government's public policy decisions.

For many years, the government has disagreed with our view about these organizations and has not included them in its reporting entity.

The two small corporations are management type companies, and although their responsibilities–in terms of funds left in their care—are enormous, their own assets, liabilities, revenues and expenses are relatively small, and therefore their exclusion from consolidation does not materially affect the government's financial statements. We have not qualified our opinion on the government's financial statements on this account, and the government remains unwilling to include them.

The Workers' Compensation Board (WCB) is an organization that has recently gone through significant change in its relationship with the government and in its governance structure, to the extent that the government no longer controls its destiny. In 2002, the government agreed to produce adequate financial information on WCB in a note to its financial statement and to look after the need for public financial accountability about the organization. In turn we agreed to keep an eye on how the new arrangement will unfold.

The exclusion from the reporting entity of schools, universities, colleges and hospitals (the "SUCH" sector) results in a much larger issue.

A fundamental accounting principle that tests the integrity of a government's financial statements is that the Summary Financial Statements must provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible—including those related to the activities of government agencies and enterprises. We have in the past maintained that because the provincial government is empowered to control the public organizations in education and health, it should provide a full accounting of the SUCH sector in its Summary Financial Statements.

In 1996, the government agreed to do this, but reversed that decision in the following year. Thus, for each year since 1997, the Summary Financial Statements of the government have both provided an explanation as to why the SUCH sector has been excluded and quantified the effect of such exclusion. Not until the Budget Transparency and Accountability Act was amended in 2001 did the government—committing itself to implementing generally accepted accounting principles for senior governments by 2004/05—consider including the SUCH sector again in its reporting entity.

We have carefully watched the government's process for determining which of the organizations in the SUCH sector should be included in the reporting entity. That process has involved a review by an advisory committee of respected non-government individuals appointed by the Minister of Finance, as well as the soliciting of advice from other sources such as the Comptroller General.

We understand that both the advisory committee and the Comptroller General agree that school districts, colleges and institutes, health authorities and hospital societies should be included in the government reporting entity. They also believe that regional hospital districts are operating outside the government reporting entity—a situation we studied as well and conditionally agreed to, provided that appropriate changes are made to legislation removing some of the government's powers over the regional hospital districts.

This leaves universities as the last issue concerning the government reporting entity at this time.

We have heard the views of the advisory committee and senior government officials as to why all public universities should be excluded from the government reporting entity (Royal Roads University is the exception because government control over that university is not disputed). These views, supported by rigorous deliberations, confirm that, of the SUCH sector organizations, the universities are the toughest cases when it comes to applying professional judgment to decide whether or not they are, for accounting purposes, controlled by the government.

For these reasons, and in anticipation of PSAB's proposed amendments of its standards on the government reporting entity, we decided to re-examine our position. After considering the weight of evidence supporting government's current controlling powers however, we again concluded that we are not able to justify excluding universities from the government reporting entity.

In our view, under its current mandate, the government is substantially responsible for the financial affairs and resources of universities because it:

- appoints and removes the majority of members of the board of governors (although two of the government's appointees are selected from among people nominated by the alumni associations),
- approves new and substantially-updated university degree programs,
- approves any operating deficits,
- approves borrowing for capital acquisition, and has access to the assets acquired by capital advances it has made,
- has the power to cause the mandate of universities to be amended,
- has the right to restrict the largest single source of revenue that universities have, and
- approves the disposal, mortgage or lease of land and the lease provisions.

The government, while respecting universities' institutional autonomy and their degree granting roles, also makes public policies that affect the direction universities must take (a policy might stipulate, for example, doubling the annual number of graduates in computer science over five years).

The public universities' financial affairs are the public's business, and their assets are substantially financed from the public purse.

The University Act stipulates that the government must not interfere in the formulation and adoption of academic policies and standards, admission and graduation, and appointment of staff. Other than these limitations (likely designed to guarantee academic freedom of universities) the government is not barred from any other involvement in the affairs of public universities. That includes involvement in their finances.

Government advisors say they have followed PSAB's current thinking on what should be included in the government reporting entity. In our view, however, what PSAB has put forward as the test of control places universities in the "controlled by government" category. According to PSAB, if government has the power to control an organization, that is sufficient reason for including it in the reporting entity. So, while we, as well as the government, acknowledge and respect universities' academic freedom, we also believe, under current legislation, that government has the power to control their financial and operating policies. Whether the government chooses to exercise that power is another matter.

When we re-examined this issue, we also reconsidered whether, in arriving at our conclusion, we might have mis-interpreted:

- the complexity of the relationship between the government and universities,
- the current thinking of PSAB on control, and
- the extent of institutional autonomy (a very old tradition cherished by universities in protecting their academic freedom against external authorities).

We wanted to be sure we had not made a judgmental error in developing our rationale for including the universities in the government reporting entity.

What we concluded was that even if the government were deemed not to control universities, it still has the ability to affect their strategic operating, investing and financing policies. The CICA Handbook refers to such ability as "significant influence" and requires that financial information of organizations so influenced be captured in the reporting entity. Factors that may indicate a situation of significant influence include representation on the board, the existence of an economic interest, and participation in the policy-making process. All factors that we think exist in the current circumstance:

- The government has a sizable representation on the board of governors of universities. The shared governance structure in place at universities requires that plans and policies formulated by the university's senate be endorsed by the board of governors.
- The government's legislated responsibility to approve the public universities' capital borrowing confirms the government's economic interest in them.
- The Ministry of Advanced Education service plan identifies as one of its five core businesses that of providing leadership and direction to universities and colleges, establishing policy and accountability for them, and providing the majority of funding to them.

Applying the "significant influence" test confirms the reasonableness of our conclusion, that excluding universities from the Summary Financial Statements cannot be justified at this time.

Aside from the question of inclusion of universities in the government reporting entity, a second fundamental question is: If the government is not accountable for the finances of the system of public universities in British Columbia, then who is? In our view putting a satisfactory consolidated accountability regime in place for universities and including the result in the Summary Financial Statements would go a long way in answering this question.

Overall, we are very pleased to see how the government has directed its efforts in resolving the reporting entity issue. We look forward to seeing the financial operations of schools, universities, colleges and hospitals being included in the Government's Summary Financial Statements.

The Reservation on Presentation of Net Liabilities Is No Longer Needed

Generally accepted accounting principles for senior governments, as recommended by the CICA, require that governments present their statement of financial position in a particular way so that their net liabilities can be clearly seen.

In 2000/01 the government did not follow the required presentation, and so we included an additional reservation in our audit report concerning that point. In 2001/02, we are pleased to report, the reservation is not needed because the government did comply with the recommended presentation.

We Discuss Other Significant Issues and Recommend Improvements

In our audit, we came across a number of significant issues we believe the government should work on with a view to adopting best accounting and reporting practices. They involve:

- using appropriate accounting policies in school districts,
- improving the way interest expense is disclosed,
- bringing consistency to the reporting of contingent liabilities,
- improving the accounting for segmented financial information, and
- resolving the problem of financial statements of school districts being for a different fiscal year than the government's.

Not included in this list are the less significant items we have reported directly to the appropriate ministries, Crown corporations and other government organizations.

Using appropriate accounting policies in school districts

The Ministry of Education has initiated a comprehensive review to improve the accounting and financial reporting of school districts. The aim is both to promote the use of appropriate accounting policies and to achieve a greater degree of consistency in the way in which the school districts report their financial performance. This review is timely because, in compliance with the Budget Transparency and Accountability Act, the government must fully adopt generally accepted accounting principles for senior governments by the 2004/05 fiscal year in its Summary Financial Statements.

The ministry has determined that the most appropriate accounting principles for school districts are those recommended by the CICA for not-for-profit organizations. Among the matters included in the ministry review are the allocation and amortization of tangible capital asset costs and the recording on a more accurate and consistent basis of the year-end liabilities for employee future benefits.

We previously reported that the ministry's deadline for completing its review was June 2002. This deadline has been extended to June 2003.

We recommend the Ministry of Education complete its review of school district accounting and reporting issues by the end of the 2002/2003 school year.

Improving the way interest expense is disclosed

The Statement of Operations in the Summary Financial Statements groups government expenses by function, such as health, education and social services, and allocates interest expense related to them. However, the part of the government's interest expense which is not allocated to other functions is separately disclosed. In our view, this accounting treatment results in misleading information.

Some years ago, the government started to allocate interest to its health, education and transportation functions, but the process stopped there and did not continue for the other functions.

To be consistent, we think the government should allocate the remaining interest, based on a reasonable rationale, over its other relevant functions.

The total interest expense is clearly shown in a note to the Summary Financial Statements.

We recommend the government be consistent in how it allocates interest expense to appropriate functions.

Bringing consistency to the reporting of contingent liabilities

The Province is a defendant in a number of legal actions and involved in matters such as expropriation compensation disputes, tax assessment appeals, aboriginal land claims and other outstanding claims. Each of these areas represents contingent losses and may involve a future expenditure of assets, including payment of cash, land or some other type of remuneration.

Depending on the circumstances, these contingent losses are accounted for in one of two ways. If the amount of future expenditure can be readily estimated and is likely to be incurred, then the estimated cost is accrued as a liability in the financial statements. The actual amount accrued is usually not disclosed, because disclosure could prejudice attempts to settle the matter out of court. If the amount cannot reasonably be estimated or if the likelihood of loss cannot be determined, then the details of the issue at hand are only disclosed in the notes to the financial statements so that a reader is aware of the matter. A portion of the amount might be accrued and an additional amount disclosed in the notes to the financial statements if the government believes it is likely a certain amount will be paid on a possible further exposure to loss.

When a contingent loss is disclosed, it is a generally accepted principle that the nature of the contingency should be adequately explained, as well as the reason why no accrual has been made (which will be that the amount cannot be estimated or the likelihood of liability cannot be determined). Often, the amount disclosed is the amount claimed in the lawsuit.

We believe that the current note covering contingent liabilities and commitments does not adequately follow this practice. It includes no explanation about a potentially large contingency, while being perhaps overly detailed for other matters. For example, the Province is a defendant in a lawsuit for alleged negligence resulting from the construction of leaky condominium buildings. The likely outcome of this lawsuit cannot be determined with certainty, but it could be substantial. Yet the contingency note does not refer to this matter specifically.

In our view, we think readers of the financial statements would be better served with pertinent information about all the significant possible contingent losses. More detailed disclosure about an issue, if desired, could be provided separately as part of management discussion and analysis about the financial statements.

We recommend the note disclosures about contingent liabilities be written in a way that reflects a level of disclosure appropriate to the relative significance of the issues.

Improving the accounting for segmented financial information

Reporting segmented financial information has been a private sector practice for some time. Doing the same in government would, we believe, help readers of the financial statements better understand the finances of the key segments of government in the context of its overall financial performance. Those key segments would include, for example, education, health, natural resources, social services, transportation, protection of persons and property, and general government. And the financial results reported for each segment would cover their revenues, expenses and, ideally, assets and liabilities.

At present, the Summary Financial Statements provide supplementary statements of "Financial Position by Sector and Results of Operations by Sector." These show some of the assets, liabilities, revenues and expenses of government's segments. However, the analysis is incomplete, since the operations of ministries have not been allocated by sector. For example, the financial results and assets and liabilities employed by the Ministries of Education and Advanced Education are not

included in the financial information of the education sector. All that is shown as segmented (or sectoral) financial information are the results of the Crown corporations and other government organizations considered to be operating in those segments. These supplementary statements are also incomplete because the government excludes school districts, universities, colleges and institutes, and health care organizations from education and health sectors in its financial reporting.

We recommend the government annually provide, in the Summary Financial Statements, complete segmented financial information.

Resolving the problem of financial statements of school districts being for a different period than the government's

The government's plans to comply fully with generally accepted accounting principles will likely result in consolidating school districts in its Summary Financial Statements for the 2004/05 fiscal year. However, the fiscal year-end of the government is March 31 and that of the school districts is June 30. Practically, therefore, the latest available audited financial statements of school districts are for the year ended nine months prior to the government's year-end. The government must ensure the operating results of the school districts between July 1 of one year and March 31 of the next year are reported as completely and accurately as possible in its Summary Financial Statements.

We noted earlier in this report that school districts along with universities, colleges and institutes, and health care organizations (the SUCH sector) are not currently consolidated in the Summary Financial Statements. The impact of the activities of these organizations on the financial statements is shown, however, in an unaudited schedule in the Public Accounts. The schedule includes an estimate, rather than audited information, of the operations of the school districts for the year ended March 31. The coming consolidation will therefore require the use of assumptions regarding, for example, the determination of school districts' tangible capital asset costs, amortization, and the allocation of operating costs over the April 1 to March 31 period. While these assumptions may be appropriate for unaudited supplementary

information, some uncertainties associated with them would limit their use for preparing an audited financial statement.

One solution is for school districts to produce audited financial statements for their third quarter. When the results of school districts were included in the Summary Financial Statements for the first time, in 1995/1996, the government produced such audited information based on the school districts' financial year-end of June 30, 1995. That required considerable additional work to ensure the information accurately reflected not only the operations for the period from April 1, 1995 to March 31, 1996, but also the assets and liabilities as at March 31, 1996. In that year, the Summary Financial Statements were not finalized until November 1996.

Changing the statutory year-end of school districts to March 31 may be another solution for preparing the Summary Financial Statements, but it is not a logical year-end choice for school districts.

A workable option might be for school districts to prepare an interim financial statement, as at March 31 of each year, for inclusion in the Summary Financial Statements. Nevertheless, if it took this approach, the government would still need to seek an appropriate level of assurance regarding the reasonableness of the interim financial information.

We recommend the government consider the possibility of obtaining assurance on an interim financial statement of school districts as at March 31 each year, for inclusion in the Summary Financial Statements.

We Discuss the Financial Effects of Important Decisions on the Summary Financial Statements

The Summary Financial Statements are complex and serve a general purpose. In putting them together annually, the government summarizes a great deal of information, including that about significant transactions which are either non-recurring or have occurred for the first time. A fuller explanation helps readers understand the role these transactions play in shaping the government's finances. We discuss six such transactions that

played a significant role in shaping the financial statements of the government in 2001/02:

- recording equalization payments,
- accounting for the federal government's overpayment of mutual fund tax revenues,
- accounting for the government's restructuring exit expenses,
- reporting the gain on pension settlement,
- calculating the Province's cost to support Skeena Cellulose, and
- disclosing the government's equity in BC Hydro.

Recording equalization payments

Equalization is a program of the federal government that is intended to reduce fiscal disparities among provinces. Payments under equalization are intended to enable less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces.

The calculation of equalization payments is a complex process. The first step is to calculate the per capita revenue of the Province. This involves determining more than 30 types of revenue following procedures and formulae set out in federal legislation and using average tax rates. The same calculation, using the same formulae and rates, is done for each province so that the results will be directly comparable.

Next, the national standard is determined by averaging the per capita incomes of the five "middle income" provinces: British Columbia, Saskatchewan, Manitoba, Ontario and Quebec.

Any province whose per capita income is less than the standard is entitled to receive payments to bring its per capita revenue up to the national standard.

In 2001/02, British Columbia received $226 million in equalization payments. Of this amount, $94 million was for 1999/2000 and the remainder was for 2001/02. No payments were due to the Province for 2000/01 because of strong energy revenues earned from natural gas royalties and electricity sales.

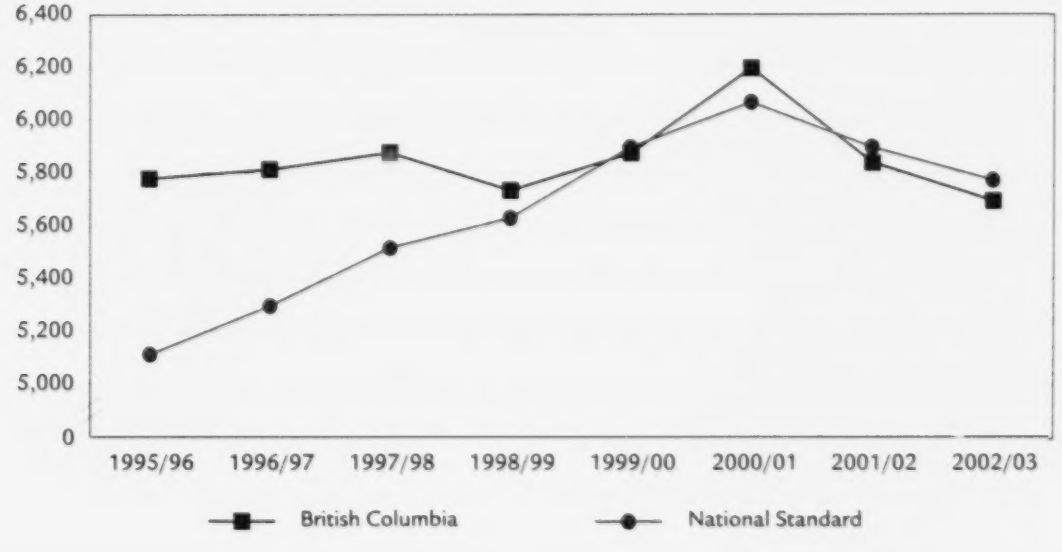
Exhibit 1.1 shows the per capita income in British Columbia and the national standard since 1995/96, with a projection forward to 2003.

More recently, in the Estimates for the fiscal year ending March 31, 2004, the government has estimated that British Columbia will receive $668 million in 2002/03. Receipts under the federal equalization program are recorded on a cash basis (as opposed to an accrual basis). In other words, the Province records the payments as and when they are received, and does not try to account in the financial statements for what might be received in later years for a current year.

We agree with the government recording the equalization payments on a cash basis. Estimating what a province may receive is complex, subject to significant uncertainty, and potentially unreliable for financial statement purposes. For example, federal estimates in October 2001, halfway through the year, showed no

Exhibit 1.1

Per Capita Income for British Columbia and the National Standard, 1995/96 – 2002/03



Source: Department of Finance, Ottawa, February 27, 2002, official estimates

equalization payments would be made to British Columbia. Those estimates were later revised and in the end the Province received $226 million in March 2002.

Accounting for the federal government's overpayment of mutual fund tax revenues

Mutual fund trusts pay federal and provincial income taxes on the taxable capital gains made in the funds. However, the trusts also report those gains on T3 slips, which they issue to individual unit holders to include on their own returns. The trusts can then claim a refund for the amount of taxes due on the gains shown on the T3s. In the end, the mutual fund trusts pay little or no tax on these gains, with the tax being paid instead by the individual investors.

The federal government requires mutual fund trusts to show separately on their tax returns the amount of tax owing and the amount of the refund claimed. The taxes and the refunds are segregated into the appropriate federal and provincial amounts.

The federal government records the amount of provincial taxes owing by the mutual fund trusts, along with all the other provincial taxes it collects on behalf of the provinces, so that it can pay the provinces the taxes it has collected for them. However, because of an accounting error, for many years in the past the federal government did not deduct the refunds of provincial taxes claimed and collected by the mutual fund trusts. As a result, it transferred more money to the provinces than it ought to have.

This error has likely existed since the 1970s, although the refunds have only become significant in the last 10 years with the dramatic growth in mutual funds and the period of notable gains in the stock market. Recently, the error was noted and investigated by federal government internal auditors and reported to the Auditor General of Canada, who confirmed their findings. To provide additional assurance to the provinces, the Canadian Council of Legislative Auditors formed a working group to review the work of the Auditor General of Canada. Our Office was part of that group.

The amount of the error that affects British Columbia is $121 million for 1999 and earlier tax years, $58 million for the 2000 tax year, and an estimated $35 million for the 2001 tax year. The Province is of the opinion that the liability for the errors

relating to the 1999 and earlier tax years is the responsibility of the federal government. Accordingly, it has not made any accrual for repayment. Instead, the amount is disclosed only as a contingent liability. (In September 2002, the federal government stated it would not request repayment from British Columbia for those tax years.) However, as the federal government's books on the tax years 2000 and 2001 are still open, the amounts related to those two tax years will be deducted by the federal government from the transfer of taxes to the Province. The adjustment for the two years are correctly made in the Summary Financial Statements of the prior and current years.

The tax year is the calendar year, which is different from the fiscal year of the government (ending March 31). The adjustment to the Summary Financial Statements, taking into account the different year-ends is as follows:

Impact on fiscal year (in $ millions)

	Error	1999-2000	2000-2001	2000-2002
2000 tax year	58	15	43	
2001 tax year	35		9	26
total		15	52	26

Accounting for the government's restructuring expenses

The British Columbia government has embarked on a significant restructuring of government operations. This is resulting directly in expenditures that are not associated with the continuing activities of government such as penalties paid to cancel contracts not needed as a result of the restructuring.

The restructuring is to be carried out over three years. As each relevant restructuring plan is approved, associated costs are recorded. Thus, in the 2001/02 Summary Financial Statements, the costs recorded are those for which restructuring plans had been approved prior to March 31, 2002. Further costs will be incurred in the future.

In accordance with generally accepted accounting principles, the cost to the Province of restructuring government ministries

and fully consolidated Crown corporations and agencies is shown separately in the Summary Financial Statements, as an unusual item on the Statement of Operations. In 2002, the restructuring cost was a total of $224 million: $161 million for government ministries, and $63 million for the fully consolidated Crown corporations and agencies.

Both the Insurance Corporation of British Columbia (ICBC) and BC Rail also incurred restructuring costs. However, because they are government business enterprises, these costs are not fully consolidated in the Summary Financial Statements. The Province accounts for these organizations using a modified equity basis. This means that only their net earnings from operations are included in these statements and their restructuring costs, although deducted in arriving at their net earnings, are not shown separately. In 2001/02, the restructuring costs totalled $40 million for ICBC and $165 million for BC Rail. The cost for all government organizations in 2001/02 was therefore $429 million of which $114 million was due to severance.

Reporting the gain on pension settlement

For many it is difficult to understand how, in the 2001/02 fiscal year, the government earned an income from public sector pension plans. An accounting explanation is provided in a note to the Summary Financial Statements, but it is complex. Does the significant earning that reduced the annual deficit by approximately $1.5 billion represent real money?

A pension plan is like a savings account. Every month, premiums collected from members and their employers are paid into the plan, and retirement pension amounts are paid out of it. Also paid into the plan is the interest earned from investing plan assets. At any given time, the plan assets may or may not be sufficient to meet the plan's obligations to retired members and the future retirees. Any excess value of plan assets over its liabilities places the plan in a surplus position. Deficit arises when the plan's obligations are estimated by actuaries to be greater than the value of assets.

Actuarial valuation—a very complicated and lengthy estimation of the financial health of a plan—is normally done every three years using models and equations developed over

time. These estimations are the best financial information available to employers and members, and are reasonably accurate. Sometimes, however, the financial market will not behave as expected by actuaries. A new actuarial valuation may therefore result in an improved or deteriorated estimate of the plan's financial position. In a very stable financial market these fluctuations might be small. In a changing market—such as what we have experienced in the last decade—the fluctuations can be substantial. Given the very large sums that pension plans invest, the change may result in substantial valuation gains or losses.

Because of the long-term nature of a pension plan, it is not considered prudent to recognize the experience gains or losses immediately every time the actuaries predict a large improvement or a sizable drop in the value of plan assets. The CICA recommends that changes between the two actuarial periods be amortized over a number or years to smooth the effect of the change on the operation of the entity. The period over which the experience gains or losses are amortized is the estimated number of years an average retiree expects to benefit from the plan. Currently this period is around 12 years.

In 1999, the Public Sector Pension Plans Act set in motion joint trusteeship agreements concerning the management of the four public sector pension plans: the College Plan, the Municipal Plan, the Public Service Plan, and the Teachers' Plan. Joint trusteeship agreements were signed for the College and the Public Service plans during 2000/01, and for the Municipal and Teachers' plans were signed during 2001/02. Though in the eyes of members the plans continued without a visible break in them, in real terms, the joint trusteeship agreements ended the old plans and started the new ones. As old plans ended, so did the government's unilateral responsibility for the financial well-being of them. The new plans will be managed jointly by trustees representing employers and employees who will be sharing the responsibilities equally.

Based on information provided by the last four consecutive actuarial valuation reports the plans' finances have been improving in prior years and were all in relatively good financial position when they changed hands. However, because of the accounting practices explained above, the government has not been able to fully account for all the experience gains. Recognizing them at

once on settlement effectively wiped out the remaining balance of the government's liability for these plans, and resulted in a one-time income in 2001/02 of $1,464 million.

The joint trustees are expected to keep an eye on the financial position of the new plans to ensure they do not carry in future substantial unfunded liabilities.

Calculating the Province's cost to support Skeena Cellulose

In September 1997, the provincial government signed an agreement that formed the basis of a plan to keep Skeena Cellulose operating. There has been disclosure in the government's annual financial statements since then. In 2001/02, the provincial government sold its investment in the company.

However, the financial statements do not give an overall view of how the provincial government became involved, what it did, and how much was paid during that time.

Background

In the late 1990s, Skeena Cellulose Inc., a private forest products company located in northern British Columbia, ran into financial difficulty and was in danger of shutting down. The provincial government became involved with it in 1997 to help the company avoid closing.

On March 3, 1997, Skeena filed for protection from creditors under the Companies Creditors Arrangement Act. Its two major creditors were the Royal Bank and the Toronto Dominion (TD) Bank, each of which held 50% of Skeena's total $415 million in loans (including term debt of $330 million and an operating loan of $85 million). Ownership of the company shares was transferred to both creditors.

On September 26 that year, after several months of negotiations, a Memorandum of Lenders' Agreement was reached between the provincial government and the two banks. Forming the basis for a plan to restructure Skeena's ownership and debt, the agreement involved participation by the Pulp, Paper and Woodworkers of Canada and included the Provincial Government Job Protection Commissioner economic plan.

When the Royal Bank chose to withdraw from the restructuring plan in November 1997, the provincial government purchased the bank's ownership interest in Skeena and the term and operating loans owed by Skeena to the bank. It also assumed the Royal Bank's obligations under the Memorandum of Lenders' Agreement. The government then formed 552513 British Columbia Ltd. (552513), a Crown corporation with the mandate of holding the government's share ownership of Skeena and providing the funding agreed to under the capital expenditure loan. The new Crown corporation bought the Royal Bank's shares in Skeena, as well as the $37.5 million term loan and $42.5 million operating loan, for $31.3 million. The funds for this purchase were provided to the corporation by a loan from the TD Bank to 552513, which was guaranteed by the government through the new corporation. Eventually, 552513 became the majority shareholder of Skeena, with a 65.6% interest, and the TD Bank became a minority shareholder with a 34.4% interest. By 2001, the government, through the corporation, owned 72.3% of Skeena.

The restructuring plan made provision for Skeena's pulp mill workers to become 20% shareholders of the company based on the workers' agreed-upon wage cut of 10% over seven years. Although legally entitled to the shares, the workers were never issued them because the agreement establishing the mechanism for distributing the shares among the three labour groups involved was not finalized before Skeena was sold in 2002 (discussed below).

Contributions, loans and loan guarantees made by the provincial government

Based on the Memorandum of Lenders' Agreement and subsequent purchase by the provincial government of the Royal Bank's position in Skeena, Treasury Board approved certain loans, loan guarantees and other contributions as part of the restructuring plan. Creditors approved this plan in January 1998 and Skeena formally emerged from protection under the Companies Creditors Arrangement Act in February 1998.

The originally approved funding is described briefly below (and summarized in Exhibit 1.2), along with the additional government assistance approved after February 1998:

Loan for payment to unsecured creditors

The provincial government guaranteed a TD Bank loan to Skeena for $14.5 million to pay the unsecured creditors as part of the settlement arrangements accepted by creditors in the restructuring plan under the Act.

Operating loan guarantees

Initially, the provincial government guaranteed $22 million of Skeena's operating loan of $120 million. During 1998 and 1999, three increases were further guaranteed: $15 million in June 1998; $15 million in October 1998; and up to $50 million in May 1999. This resulted in the government providing a total of $98.7 million in operating loan guarantees.

Capital expenditure program loan

The provincial government agreed to a capital expenditure program loan to Skeena of $122 million (resulting in a total possible loan of $170 million when combined with the TD Bank's loan). This loan, for making improvements to the pulp mill, was to be funded over three years. In June 1998, as a result of poor markets, the program was reduced from $170 million to $110 million, reducing the Province's funding obligation to $77.4 million. In May of 1999, the Province agreed to fund any undisbursed portion of the capital expenditure program loan at that time, increasing the Province's funding obligation to a total of $96.8 million. Of that, $92.3 million was actually loaned out.

In November 1998, the TD Bank declined making further capital expenditure program loan advances. In response, the government guaranteed a TD Bank loan to Skeena of up to $11.5 million for mandatory safety and environmental expenditures under the capital expenditure program. (At that time all program spending had been deferred except for required safety and environmental expenditures.)

Road-building loan guarantee

In July 1998, the provincial government guaranteed an $18 million loan from the TD Bank to Skeena to cover required road-building expenditures.

Wage contributions

Wage contributions of $26.9 million were approved by the provincial government to Skeena over seven years. These contributions were intended to subsidize the wage cut requested by the banks as part of the restructuring plan, effectively reducing the cut taken by workers from 17.5 to 10%. Payments under the agreement were subject to certain clauses concerning provisions of future collective agreements at other pulp mills in British Columbia. As a result of collective agreements reached by other pulp mill operations in British Columbia in 1998, the wage contributions were discontinued in 1999, after only $1.7 million had been paid.

Exhibit 1.2

Loans, loan guarantees and other contributions made by the provincial government to Skeena
($ millions)

		Fiscal year					
		1998	1999	2000	2001	2002	Total
Loans/Guarantees							
Royal Bank share purchase	Guarantee	31.3	(3.1)[1]	(3.2)[1]			25.0
Loan for payment to unsecured creditors	Guarantee	14.5					14.5
Operating loan	Guarantee	22.0	28.1	34.1		14.5	98.7
Capital expenditure program	Loan	3.0	1.0	30.2	57.3	0.8	92.3
	Guarantee		10.5				10.5
Road-building loan	Guarantee		18.0				18.0
Total Loans and Guarantees							**259.0**
Non-Repayable Contributions							
Wage offset	Contribution	.7	1.0				1.7
Road-building loan	Contribution		1.7	1.7	1.7		5.1
Total Contributions							**6.8**

[1] These reductions of the guarantee for the Royal Bank share purchase loan are a result of Skeena's interest payments being applied against the loan principal.

Source: Compiled by Office of the Auditor General of British Columbia

Road-building contribution

Under the Job Protection Commission plan, the then Ministry of Employment and Investment (now Ministry of Competition, Science and Enterprise) provided Skeena with road-building funding of $1.7 million a year for three years in order to improve the company's access to timber resources.

The Sale of Skeena

During 2001, Skeena experienced further significant operating problems, which resulted in it again seeking protection under the Companies Creditors Arrangement Act on September 5, 2001. On February 20, 2002, NWBC Timber & Pulp Ltd. (NWBC) agreed to purchase Skeena and its subsidiaries (excluding Buffalo Head Forest Products Ltd.). The new owner agreed to pay $8 million in total, $6 million to be applied against secured creditor claims (TD Bank and the provincial government) and $2 million to be applied on claims of unsecured creditors. The sale closed on April 26, 2002, and on May 8 the government, through 552513 British Columbia Ltd., received proceeds of $2.5 million for the sale of Skeena (Exhibit 1.3).

Exhibit 1.3

Amount paid to 552513 British Columbia Ltd. following the sale of Skeena Cellulose Inc. to NWBC Timber & Pulp Ltd.

Payment	$6,000,000
Fees and disbursements	202,400
Net	5,797,600
Provincial government share (52.6%)[1]	3,049,538
Less: Levy	(24,483)
Less: Trust claims filed	(557,241)
	$2,467,814

[1]This portion of the $5.8 million for secured creditors was assigned to 552513 British Columbia Ltd. as part of the restructuring plan approved under the Companies Creditors Arrangement Act on April 4, 2002.

Source: Compiled by Office of the Auditor General of British Columbia

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Capital expenditure program	Loan	3.0	1.0	30.2	57.3	0.8	92.3
	Guarantee		10.5				10.5
Road-building loan	Guarantee		18.0				18.0
Total Loans and Guarantees							**259.0**
Non-Repayable Contributions							
Wage offset	Contribution	.7	1.0				1.7
Road-building loan	Contribution		1.7	1.7	1.7		5.1
Total Contributions							**6.8**

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[1]This portion of the $5.8 million for secured creditors was assigned to 552513 British Columbia Ltd. as part of the restructuring plan approved under the Companies Creditors Arrangement Act on April 4, 2002.

Source: Compiled by Office of the Auditor General of British Columbia

The amount paid to the secured creditors was reduced by bankruptcy trustee fees and associated legal fees and disbursements. This resulted in a net amount of $5.8 million being paid to the government (through 552513) and the TD Bank. The net amount received by 552513 was further reduced by a levy of $24,483 (as required under the Bankruptcy and Insolvency Act) and trust claims of $557,241. The latter reduction was for stumpage that Skeena collected from logging contractors but never remitted to the government. In keeping with the restructuring plan, the third-party stumpage obligations owed by these logging contractors were paid out from the government's share of the sale proceeds.

As a result of the TD Bank calling in the loans owed by Skeena, the various loan guarantees provided by the provincial government to the bank were paid out between September and November 2001. This included $25.1 million paid on behalf of 552513 for the loan guarantee used to purchase the Royal Bank interests; $124.1 million for all term loans and the non-revolving portion of the operating loan; and $18.4 million for the revolving portion of the operating loan. The loans previously owed by Skeena to the TD Bank and paid out under the guarantees were assigned to the government. Two new companies were set up with the sole purpose of holding the assigned loans: $124.1 million went to 632121 British Columbia Ltd. (632121), and $18.4 million went to 634349 British Columbia Ltd. (634349). Both companies became secured creditors, capable of voting secured creditor claims under the Companies Creditors Arrangement Act. The loans were subsequently written off by the two companies, both of which are now being wound up.

In addition to the guarantee payouts, the government wrote off the $92.3 million loan due from Skeena (through 552513) under the capital expenditure program.

As part of the sale, the government agreed to provide Skeena and NWBC with a limited environmental indemnity of up to $30 million. Both companies are exempted from all losses, costs and expenses related to hazardous substances, and from all third-party claims for damages related to hazardous substances, incurred before the closing date of the sale of Skeena to NWBC. This indemnity terminates on the sixth anniversary of the purchase of Skeena.

The restructuring plan resulted in zero recovery on all Crown claims against Skeena:

- Skeena and its subsidiaries owed approximately $21.5 million in stumpage to the Ministry of Provincial Revenue.
- Licence and permit fees and miscellaneous taxes totalling approximately $4.2 million were written off.

Other government programs related to Skeena

Skeena's financial difficulties prompted Forest Renewal BC to establish the Credit Enhancement Emergency Fund (CEEF) loan guarantee program in 1997. This fund, administered by Collection and Loan Management Branch of the Ministry of Provincial Revenue, provided a 100% loan guarantee to financial institutions that gave loans to British Columbia companies in distress as a result of Skeena's plight. The program approved 201 loans, which amounted to $36 million in guarantees.

At March 31, 2002, there were 122 loans outstanding, worth a total of $9.9 million. The provincial government has paid out $3.27 million in guarantees for defaulted loans. And it could ultimately be responsible for the remaining $9.9 million in outstanding guarantees should all the loans be defaulted on.

The total cost of Skeena to the provincial government is over $323 million

We determined that the total amount of all direct costs incurred by the government as result of its involvement with Skeena Cellulose from 1998 to 2002 has been $323.3 million (Exhibit 1.4). That does not include the $9.9 million for loan guarantees still outstanding under the CEEF loan guarantee program described above, some or all of which the provincial government may have to pay if the debtors default. We also did not include in our calculations of this total expenditure either the lost opportunity cost of the government funds used to pay for all the expenses related to Skeena, or the economic benefits derived from keeping the mill open.

Readers should note as well that we have included only the direct costs incurred by government in supporting the company that we are aware of, after reviewing relevant documentation and having detailed discussions with the Ministry of Competition, Science and Enterprise staff.

Exhibit 1.4

Loans, loan guarantees and other contributions made by the provincial government to Skeena
($ millions)

			Loan/guarantee pay-out mechanism				
		Total	Paid by Province	Debt transfer to 632121[2]	Debt transfer to 634349[2]	Loan forgiven	**Total Cost to Province**
Loans/Guarantees							
Royal Bank share purchase	Guarantee	25.0	25.1[1]				25.1
Loan for payment to unsecured creditors	Guarantee	14.5		14.6[1]			14.6
Capital expenditure program	Loan	92.3				92.3	92.3
	Guarantee	10.5		10.7[1]			10.7
Operating loan	Guarantee	98.7		80.8	18.4		99.21
Road-building loan	Guarantee	18.0		18.1[1]			18.1
Total			25.1	124.2	18.4	92.3	**260.0**
Non-repayable contributions							
Wage Offset	Contribution						1.7
Road Building Loan	Contribution						5.1
Total contributions							**6.8**
Environmental liability assumed by Provincial Government							**30.0**
Stumpage revenue write off							**21.5**
Miscellaneous fees, licences, taxes written off							**4.2**
Credit Enhancement Emergency Fund defaulted loan payments							**3.3**
Less: Proceeds from sale of Skeena							**(2.5)**
Total							**$323.3**
Contingencies							
CEEF loan guarantees							9.9
Total potential cost							**$333.2**

[1] Differences between the amount guaranteed or loaned and the amount paid or forgiven are the result of interest accruing on the amount guaranteed or loaned.

[2] After the debt was transferred to the two companies, it was written off.

Source: Compiled by Office of the Auditor General of British Columbia

Disclosing the government's equity in BC Hydro

In a rate-regulated utility company, the Rate Stabilization Account (RSA) refers to a reserve account established primarily to protect consumers against volatile energy markets. Usually, in good years—when there are surpluses—funds are transferred to this account to help pay the excessive costs that would otherwise result in higher rates in bad years. In a similar way to other utility companies across Canada, BC Hydro follows the accounting standards of rate-regulated organizations. These standards allow payments to the RSA to be treated as if they were a company expense. Similarly, any withdrawal on that account is recognized as company income. This accounting practice is peculiar to rate-regulated organizations. In other corporations (e.g. insurance companies) transfers to the rate stabilization reserve would, ordinarily, not affect the corporations' earnings.

In the 2001/02 fiscal year, BC Hydro transferred $145 million from its RSA to its operation, reducing that account's balance from $232 million to $87 million. This transfer, which was treated as income of the 2001/02 fiscal year increased the corporation's consolidated net income from $258 million to $403 million. Out of this adjusted annual net income, BC Hydro paid $333 million to the provincial government as a dividend. In effect, therefore, part of the dividend to the Province came from the RSA, which implies that the RSA is part of the retained earnings of BC Hydro and therefore should be included in the Province's equity in that company.

In the Summary Financial Statements, the government includes the balance of the RSA as part of the Province's equity. However, the balance sheet of BC Hydro does not. This raises the question: "Which set of financial statements shows the Province's equity in BC Hydro correctly?" In our view the Summary Financial Statements do. We also believe that it would be clearer if BC Hydro, instead of showing the RSA as a liability, showed its RSA as part of the government's equity.

Considering RSA as a liability—the way rate-regulated accounting standards allow—is more appropriate for a private sector utility company whose rates are determined by an independent regulator. In such a situation, the regulator can force the utility company to hold funds in a liability account

that shareholders cannot access. On the other hand, where the regulator is the shareholder, an official or agent of the shareholder (as is the case with BC Hydro), it is impossible to achieve such separation effectively.

All legislative auditors across Canada are in full agreement that, in circumstances where regulators are not independent of the rate-regulated organization, it serves little purpose for the publicly owned organization to follow the rate-regulated accounting standards.

The Canadian Council of Legislative Auditors has formally requested PSAB to revise the rate-regulated accounting standards for publicly owned corporations. In the meantime, because the current accounting standard is in place, auditors may choose not to make a reservation when publicly-owned rate-regulated utility companies follow it.

While the application of accounting standards of rate-regulated organizations does not extend to the Summary Financial Statements, in many other jurisdictions the results of this accounting standard are carried forward to the summary financial statements with no adjustment.

In preparing its financial statements, the British Columbia government has been adding back the RSA balance to the government equity for many years. We are pleased to note that this practice continued in the 2001/02 fiscal year. The result is a more accurate disclosure of the substance of RSA in the government's financial statements.

Response from the Ministry of Finance

We appreciate the opportunity to respond to the Auditor General's report. While we always carefully consider the Auditor General's comments and recommendations, we do have a number of difficulties and differences of view with this report.

As our standard, we follow the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. This constitutes a clear reference point upon which to base our accounting and is consistent with that being used by other senior governments in Canada. As the Auditor General notes, we have now adopted the "net liabilities" format for our Statement of Financial Position. We are also reviewing a number of other practices and policies of government to confirm they meet PSAB recommendations in order that we may ensure we are fully compliant with GAAP by the legislated deadline of fiscal year 2004/05. The Auditor General and the government are generally able to agree on what PSAB requirements represent. However, in a couple of areas noted in this report, we feel that the Auditor General is departing from the PSAB standard as it is interpreted in Canada.

Government reporting entity

In determining what organizations should comprise the government reporting entity under GAAP, we are using the new criteria developed by a task force of PSAB. These new criteria have been developed to deal with the concerns of senior governments that the current criteria are difficult to interpret and apply. The new criteria clearly spell out that the basis for including an organization is that the government controls it—control being defined as "... the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities." The criteria are very explicit in stating that this control must arise from existing legisl. ion and provide a series of indicators of control as a test to use in applying professional judgement to the existing relationship.

The criteria are also very clear that constitutional responsibility for a particular program is not an indication of control. For instance, where an organization (e.g., private schools) delivers services which are the responsibility of government, the organization cannot be presumed to be controlled by government, nor does the fact that

government legislation creates an organization necessarily mean that government controls it. The test must be the ability to control the financial and operating policies of that organization on an on-going basis.

As noted by the Auditor General in his report, we have reviewed our current reporting entity against these new criteria. We have found that, while they do not change the status of the majority of the organizations included in the current government reporting entity, they do clarify the position of a number of entities considered questionable in the past. We have reviewed our findings with the Auditor General and found that in the majority of cases our evaluations come to the same conclusions. However, there are a number of entities where the Auditor General disagrees with our conclusion. In each of these cases, we believe he is applying a standard that is not PSAB compliant. The main group of entities in dispute is universities operating under the Universities Act and we will focus our response on those entities although, as he notes, there are other organizations in question where we have the same type of issues to resolve.

The Auditor General argues that the government has the power to control the financial and operating policies of universities. We are unable to support his conclusion on this issue. In our view, universities (except for Royal Roads University, which operates under different legislation) do not meet the new control criteria. The Universities Act does not provide the government with an over-riding control of their activities. We appoint six of fifteen board members directly plus select two more from a list provided by the university alumni. The government must also approve any operating deficits incurred by the universities, their borrowing and their disposal of land. This combination of powers does not, however, in our judgement, result in government controlling the entire financial and operating policies of universities. The controls provided are only those required for the prudent application and monitoring of the government's funding of the organization.

The other items listed by the Auditor General as indications of control arise entirely from our funding of university operations. PSAB is very clear that financial dependence on the government does not constitute control. Universities have the power to develop and establish new programs, to develop academic interests and channel their operational resources to support those activities. Any power the

government has to approve new and substantially updated programs, to cause the mandate of universities to be amended and restrict the largest source of revenue would arise from the fact that the government provides the largest single source of revenues to the universities through its grants to university operations. If the universities were to obtain funding from other sources, these powers would disappear. If we were to use this as a basis for control, we would be bringing in any organization with significant financial dependence on the government, hence PSAB's exclusion of such powers from the criteria.

The argument that someone needs to be accountable for universities clearly takes us into the realm of including organizations where we have constitutional responsibility or have legislated an organization into existence. This is not part of the criteria established by PSAB and was specifically exempted because constitutional responsibility is far too broad as an inclusion determinant. Universities are controlled by their individual boards and the boards are accountable for their operations, not the government.

As noted by the Auditor General, the government has referred this issue to the Accounting Policy Advisory Committee (APAC) for review and comments. That Committee is comprised of qualified accountants who have volunteered to provide the government with advice on issues arising from the government's commitment to move to full GAAP. The Minister of Finance received nominations for members of the Committee from the Institute of Chartered Accountants of British Columbia, Certified General Accountants Association of British Columbia, Certified Management Accountants Society of British Columbia and Financial Executive International. This group is well qualified and provides an independent viewpoint from which to consider these accounting issues.

The APAC met a number of times to consider issues referred for its consideration, including the question of whether or not school districts, universities, colleges and institutes and health care organizations (the SUCH sector) should be included in the government reporting entity. The APAC agrees with the Auditor General that school districts, colleges and institutes, and health care organizations should be included in the government reporting entity. However, APAC does not agree that universities under the Universities Act should be included.

The APAC reviewed the legislation and discussed the relationship of universities to the government with individuals from Treasury Board Staff, the Office of the Comptroller General, the Ministry of Advanced Education and The University Presidents' Council. The unanimous conclusion of the APAC was that universities (except for Royal Roads University) should be excluded. This conclusion was in the APAC's first report to the Minister of Finance. Subsequently, because the Auditor General did not agree with this conclusion, the APAC reviewed the facts that lead to their conclusion. They again interviewed key individuals and reviewed the information. They also discussed the Auditor General's opinion directly with him. The APAC's conclusion did not change as a result of this review and it continues to recommend exclusion of universities from the government reporting entity.

We would also note that the position of the government and the APAC with respect to excluding universities from the government reporting entity is supported by the findings of most other provinces which have used these new criteria to evaluate their own reporting entity. Only the Province of Manitoba includes universities in its entity because the province controls the boards of these organizations and has access to their assets. It is expected that as provinces move forward in addressing the reporting entity issue, most will be excluding universities from their financial statements.

The Auditor General has raised the question of significant influence over universities. Significant influence as a criterion is normally applied to private sector organizations. The application of the private sector handbook provisions are questionable given the new PSAB entity criteria and in view of the differences between private sector not for profit and public sector powers and responsibilities. PSAB is considering a project to evaluate the application of significant influence criteria to government entities; however, it has not been approved at this time.

Having universities outside the reporting entity is consistent with the substance of their relationship with government. While the province is responsible for the legislative framework, and for the funding it provides, universities have significant discretion and academic freedom to manage their affairs. This is reinforced by the recent repeal of legislation that controlled universities' ability to raise tuition fees.

The universities themselves do not believe they are part of the government reporting entity as defined by PSAB. They believe that if they are included in the government reporting entity and included, for example, under the Balanced Budget and Ministerial Accountability Act, the government may be tempted to interfere with or micro-manage university affairs, perhaps leading to new legislative changes to provide overall control. Their greatest concern is that inclusion in the government reporting entity is more than an accounting issue when all the potential impacts on universities are considered. For instance, it could impact their fund raising from other sources due to a perception that the monies would be going to government rather than the university.

It is government's belief that universities meet the test for exclusion based on the most recent PSAB criteria. In the past, the Office of the Auditor General has agreed that universities were the weakest case for inclusion in the government reporting entity. The current Auditor General has stated that he could see an argument being made for exclusion, however, his preference is that government needs to be seen as accountable for the entire university system and, therefore, universities should be included.

While we do not agree with the Auditor General on the inclusion of universities in the reporting entity, we will have to include them unless the Auditor General changes his position. We view this issue, however, as a work in progress and will be monitoring the application of the new reporting entity criteria in other provinces. Further review may be required if it is found that British Columbia is out of step with the other provinces.

Using appropriate accounting policies for school districts

The Ministry of Education is in the process of completing its review on the appropriate accounting policies for school districts. However, there are administrative constraints associated with the implementation of these policies by the school districts. School districts have raised significant concerns that must be resolved prior to implementation. It is currently planned that school districts will work over the next year to implement GAAP and will begin producing GAAP based reports effective fiscal 2004/05. In the meantime, we will be testing the proposed new reporting standards and process by collecting accrual based 2003/04 data for school districts over the next year.

Improving the way interest expense is disclosed

The allocation of interest expense beyond our current practice of allocating costs associated with the capital funds provided to school districts, educational institutions, and transportation has proven more difficult than originally anticipated. We have not been able to formulate an effective allocation of the remaining interest costs to government programs that produces a reasonable result. However, we appreciate the Auditor General's concern and are, therefore, considering other options such as moving the currently allocated interest costs back to a single interest expense function. This is consistent with the reporting of other provinces and also with Statistics Canada government expense groupings. We will be further discussing this issue and options available with the Auditor General over the next few months.

Bringing consistency to the reporting of contingent liabilities

The Auditor General is recommending that we change our note disclosure for contingent liabilities to reflect the level of disclosure appropriate to the relative significance of the issue. While we agree with the recommendation and feel that our note disclosure could be improved, we disagree that additional disclosure would necessarily be the appropriate approach.

Lawsuits are very much a case in point. Often the total claim made to the courts may not necessarily be an accurate reflection of our actual potential liability. Further, providing too much detail on individual lawsuits is always a concern as it could potentially imperil our ability to achieve a satisfactory resolution.

A recent review of the contingent liability notes of other provinces has shown that our note is far more extensive than the normal practice.

Improving the accounting for segmented financial information

We are currently working on a project to improve segmented financial data contained in the audited Summary Financial Statements. We hope to have succeeded in allocating Consolidated Revenue Fund amounts to appropriate categories for the 2002/03 Public Accounts, thus resolving the major concerns of the Auditor General on that matter.

Response from the Ministry of Finance

Resolving the problem of June year-end for school district financial statements

The problem of the June year-end for school districts is being dealt with as part of our project to move to full GAAP by fiscal 2004/05. School districts have indicated their concern that additional reporting requirements will impact funds available for schooling. The need to obtain a level of assurance on interim March 31 statements could have such an impact by increasing audit costs of school districts. Many options have been considered and we will be working with the Office of the Auditor General, as well as the Ministry of Education and school districts, in an attempt to resolve this issue in a mutually satisfactory manner. Such a solution must balance gains in financial statement accuracy against cost.

Financial effects of important decisions on the Summary Financial Statements

The Auditor General's discussion of the financial effects of important decisions primarily provides more background material on items included in the financial statements.

At the end of that section, the Auditor General discusses the current accounting related to BC Hydro. We have raised a concern with the Auditor General that our current policy to reverse the impact of BC Hydro's use of a rate stabilization account may not be in accordance with GAAP. The Auditor General states that in his opinion the current treatment is correct. However, there is a strong opposing argument that will need to be resolved by fiscal 2004/05. When this issue was taken to the independent Accounting Policy Advisory Committee, they recommended that the province should not be reversing the entries of BC Hydro for the rate stabilization account to comply with GAAP.

Part 2:
Computer Systems Supporting Government's Financial Statements

Glossary

Console	A workstation attached to a mainframe system which is used by an operator to enter system level commands that control the operation of the system.
Dataset	A collection of related data items.
Exits	Defined points in computer programs where control is passed from the calling program to a subroutine.
Hotsite	An alternate processing location that has a compatible operating environment that is ready to be activated immediately.
Information	The data digitally stored within the IT Infrastructure.
IT Infrastructure	The hardware, network facilities and software used for the storage, processing and transmission of government information.
Log on	The process by which a user requests and receives authentication from the operating system and is then able to use specific authorized system resources.
Multiple Virtual Storage (MVS) operating system	Refers to the IBM OS/390 operating system.
Privileges	The data and systems functions that a user is allowed to access and utilize.
Read	The ability to look at, or copy, data or systems.
Security Architecture	An overall design of the components that together comprise a whole security structure.
User identification	The means by which a user is uniquely identified to an IT resource, commonly referred to as a user ID, which can be a function of the user's name, an alphanumeric value or a randomly allocated alphanumeric value.

Part 2: Computer Systems Supporting Government's Financial Statements

Introduction

Every day, governments, businesses and individuals rely on computers to capture, process and store millions of pieces of data. In British Columbia, successful delivery of government's programs and services, depends on the reliability, availability and integrity of computer systems.

These computer systems also have an impact on our financial auditing. We have moved increasingly away from extensive and costly transaction-based examinations to more focused, risk-based evaluations. We have been able to do this where we note that government places appropriate emphasis on controls, including those over resources, systems, processes, organizational culture, structure, and tasks. Evaluating the controls over systems supporting government's operations, therefore, can be helpful to us in our audit of the Summary Financial Statements.

Not all systems are reviewed annually. Instead, we plan to cover key systems on a rotational basis and as our resources permit. In an effort to enhance government financial accountability, in this section we report to the members of Legislative Assembly and the public on matters of interest resulting from these reviews. This year, we report on our review of what is referred to as the MVS Environment.

Many government programs, ranging from collecting taxes, to funding health care, to managing our forests, process their data simultaneously on the same central computer. Data from these systems is input to the Corporate Accounting System, reports from which are used to prepare the Summary Financial Statements. This central computer is a powerful IBM mainframe, to which government offices throughout the province are connected. A complex operating system manages these connections and allows data to be processed by numerous end user programs, or applications, at the same time. This operating system, or platform, is called Multiple Virtual Storage, or MVS, and is currently the largest computer platform used by the government of British Columbia. It is also the most important component of the MVS environment.

What is the MVS environment?

The MVS environment includes the operating system, security system, database management software and other software and hardware components that allow the users' applications to process. While it includes everything necessary to enable these applications to run, it does not include the applications themselves. To illustrate the distinction between environment and applications, consider a shopping mall, filled with retail businesses. The mall is the environment that enables individual businesses to operate effectively and efficiently. It provides security and other common services required by the retail stores (the applications) while they perform their function of serving customers (processing). Similarly, the MVS environment provides an infrastructure where computer applications belonging to many users can process information. As the mall can support multiple stores each serving a number of customers, so can the MVS environment support multiple applications with many users.

Background

MVS processing services support a wide variety of mission-critical applications across government. Some examples are the Medical Services Plan's Registration and Premium Billing System and Medical Claims System, Finance's Cash Flow Management System, and Forest's Harvest Database System. Most processing occurs during normal government business hours, but some online systems must be accessible 24 hours a day and able to process critical batch jobs at night. Generally, government users have access to a basic suite of software products, including those for interactive time-sharing, online transaction processing, network connectivity, and batch services.

In May 1998, the Province of British Columbia contracted with IBM Canada Ltd. for the delivery of MVS services. The original contract was for five years, but we understand it has now been extended until July 31, 2006. IBM subcontracted the provision of these services to ISM-BC, which became TELUS Enterprise Solutions (TES) in 2001.

Recently, ITSD was significantly restructured so that it could better support the government's move to shared services. Following the restructuring, ITSD was renamed Common IT Services. However, because the organization was still known as ITSD at the time of our audit, we have used the original name throughout this report.

The Information Technology Services Division (ITSD) is responsible for ensuring that the MVS environment is properly controlled. This environment consists of the hardware and

software used for the storage, processing and transmission of government information. TES is responsible to ITSD for providing and maintaining the environment.

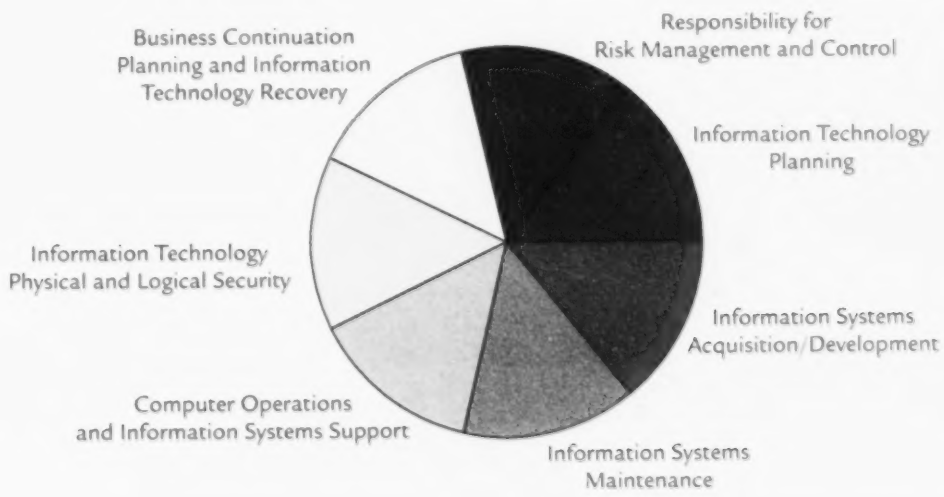
Purpose of the Audit

We were engaged by ITSD to audit the internal control objectives for the MVS environment and the key control procedures designed to achieve those objectives, as they relate to computing services provided to the government of British Columbia at the TES Data Center. Setting these internal control objectives and establishing procedures to achieve them were the responsibility of ITSD management.

The internal control objectives for the MVS environment, were derived from the Information Technology Control Guidelines set out by the Canadian Institute of Chartered Accountants (CICA). These objectives are grouped into categories based on control issues (see Exhibit 2.1). They address the management of risks arising from the use of information technology in an organization,

Exhibit 2.1

Categories of Control Issues addressed in CICA's Information Technology Control Guidelines


Business Continuation Planning and Information Technology Recovery
Responsibility for Risk Management and Control
Information Technology Planning
Information Technology Physical and Logical Security
Information Systems Acquisition/Development
Computer Operations and Information Systems Support
Information Systems Maintenance

and the roles and accountabilities of the people who manage and use information technology. Exhibit 2.2 provides a list of internal control objectives for each control issue included in the audit.

Scope of the Audit

The MVS computing services that TES provides the Province of British Columbia are based in Victoria and Burnaby. A storage facility for back-up tapes is located in a third location, in Victoria.

The mainframe computer installation runs under IBM's MVS operating system. The government is currently processing data on two central processing units (CPUs) with four logical partitions (LPARs) and one Resource Access Control Facility (RACF) database. In this audit, we looked at the system settings for three production LPARs (the one dedicated to testing was not included) and the RACF database.

The security and control of the government applications that reside in the MVS environment were outside the scope of this audit. As well, examination of the data communications network was limited to the interface to the MVS mainframe computer.

We performed our assessment of key control procedures, identified by ITSD and TES management, from November 2001 to January 2002. Our analysis of logical access—that is the ability for a user to read or manipulate data—focused on an extract from the RACF database on November 1, 2001.

Any system of internal control has inherent limitations. This means that, despite the control procedures in place, errors or irregularities may occur and go undetected. Further, projecting an evaluation of a system to future periods is subject to the risk that procedures become inadequate as conditions change or that compliance with procedures deteriorates.

Overall Conclusion

The MVS operating environment is a long-established, stable environment, and has been used in processing government applications for a number of years. However, there is still a risk that security breaches or system failures could occur.

Exhibit 2.2

Internal control objectives for Multiple Virtual Storage processing for the Government of British Columbia

A. Responsibility for Risk Management and Control

- The TES and ITSD corporate cultures support the identification, assessment and management of information technology risk.
- Information technology risk is effectively managed at all levels.

B. Information Technology Planning

- An effective information technology plan that demonstrates the management of risk is in place.
- The overall information technology performance is effectively measured.

C. Information Systems Maintenance

To ensure that systems continue to meet business and technical requirements:

- Controls exist to ensure the authorization, approval, testing, implementation and documentation of changes or additions to the components of the information technology infrastructure.
- Controls exist to protect against accidental or unauthorized changes to the information technology infrastructure.

D. Computer Operations

- Computer operations services at TES and ITSD are appropriately controlled and meet defined user requirements efficiently and effectively.
- Both TES and ITSD ensure the integrity and availability of computer operations services.

E. Information Systems Support

- Systems software procedures and activities contribute to the reliability, effectiveness and control of computer operations services.
- Logical access over network components installed on the host are appropriately controlled.

F. Information Technology Physical and Logical Security

Access Controls

- Controls are in place to ensure the integrity, confidentiality and availability of information technology processing throughout the organization.
- Logical access to systems and information is reliably controlled.

Facility Controls

- The information technology resources are housed and operated in appropriate environmental conditions.

Personnel Controls

- Appropriate consideration is given to technical skills when management and staff are hired into information technology positions.
- Appropriate consideration is given to security issues when management and staff are hired and terminated.

Security Policies and Procedures

- Information technology security is operated in an efficient and effective manner.

G. Information Technology Back-up and Recovery

- Critical information systems processing functions can be resumed promptly in the event of significant disruption to normal computer operations.

All systems of internal control involve accepting some level of risk. It is management's role to assess the relevant risks associated with identified deficiencies and either implement procedures to minimize those risks or develop plans to manage the deficiencies.

We found that all of the control procedures identified by ITSD and TES management were suitably designed to meet the control objectives, and we found that most procedures existed. However, we identified a number of cases where actual practice did not comply with the stated control procedures, indicating that the level of risk was greater than management intended. Most of these cases related to access by ITSD and TES staff to system files, commands, functions and government information, when such access was not necessary for the staff to carry out their duties. Such access allows the staff member to make changes to the system, to read government data, and to change logs recording activity in the system.

We also found that a very small number of external users had on-line access to the system rather than restricted batch access. This meant that it was possible for these users to gain access to government information.

As a result of the weaknesses found, we concluded that not all of the control objectives were met. Details of the weaknesses, organized under each internal control objective, are found in the detailed findings of this report.

We received full information and wholehearted cooperation from the management and staff of TES and ITSD during the course of our audit.

Detailed Findings and Conclusions

We present our findings and conclusions below, organized under each internal control objective described in Exhibit 2.2.

Security considerations are a crucial element of control over Information Technology, and are at the root of many of the control procedures addressed here. As well, security is specifically examined and reported in its own part of this report (Section F).

A. Responsibility for Risk Management and Control

Risk is the chance of something happening that will have an impact on the control objectives, creating an irregularity in the computing environment. Risk management takes in the identification of the risk, the assessment of the impact of that risk, and the determination of the level of control necessary to minimize that impact. The cost of implementing and maintaining control is balanced against the potential cost of the negative effect.

Corporate Culture

Control Objective

The TES and ITSD corporate cultures support the identification, assessment and management of information technology risk.

Control Procedures

1. Policies and procedures exist to inform new and current employees of information technology risk.
2. Policies and procedures stress the importance of risk management and are reinforced throughout the organization.

Conclusion

The control culture in any organization has a significant impact on whether information technology risk is appropriately managed. We found that both TES and ITSD captured the importance of information technology risk in their policies and procedures and are communicating it to new and current employees.

The control procedures were suitably designed and existed at the time of our audit.

Management of Risk

Control Objective

Information technology risk is effectively managed at all levels.

Control Procedures

1. Responsibilities for the establishment of policies and procedures are defined, within ITSD and TES, for the protection of the information technology infrastructure and information.

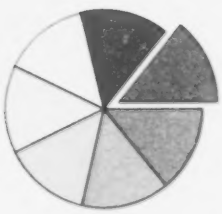
2. Supervisory positions exist to monitor the extent to which development, operation and control of the information technology infrastructure and information complies with established policies and procedures.
3. Specific security functions exist with responsibilities for developing, maintaining and ensuring ongoing compliance with security policies and procedures.
4. A contract outlines the ownership of each information technology service.
5. Job descriptions and policies outline responsibilities.
6. Audits of security access are done every six months for each department to ensure responsibilities are still relevant and are reviewed.

Conclusion

Effective risk management requires support and participation from all levels of an organization. Both ITSD and TES have defined who is responsible for establishing policies and procedures to protect the information technology infrastructure and information. The extent to which the development, operation and control of the information technology infrastructure comply with these established policies and procedures is monitored.

The control procedures were suitably designed and existed at the time of our audit.

B. Information Technology Planning



The integration of information technology initiatives with the strategic business plan is critical. An information technology plan helps an organization manage risks such as excessive costs, inadequate performance, unpredictable processing and lost opportunities.

The Information Technology Plan

Control Objective

An effective information technology plan that demonstrates the management of risk is in place.

Control Procedures

1. TES has established policies and procedures to ensure that the terms of the contract with the Province are fulfilled.
2. Responsibilities have been assigned to carry out established policies and procedures.
3. For government, TES conducts a yearly planning session, taking into consideration what was done during the past year (including accomplishments) and what will be done next year (projects and objectives).

Conclusion

We found ITSD to be exercising its information technology plan through its contract with TES.

The control procedures were suitably designed and existed at the time of our audit.

Information Technology Performance Measurement

Control Objective

The overall information technology performance is effectively measured.

Control Procedures

1. Weekly and daily capacity/usage reports are produced and reviewed.
2. TES reviews the reports on service levels, compares the findings to the contract and reports to the Province.
3. Annually, TES assesses MVS capacity and appropriate plan modifications are agreed on with the Province.

Conclusion

Developing the information technology objectives, strategies and plan is the first stage in the planning process. Monitoring their implementation and effectively using the results are equally important. We found that the overall performance of information technology was being effectively measured.

The control procedures were suitably designed and existed at the time of our audit.

C. Information Systems Maintenance

The goal of information systems maintenance is to maintain and modify systems so that they can meet user needs on an ongoing basis. Procedures related to this task should ensure that only authorized changes, duly tested and documented, can be implemented. Proper control over the maintenance process ensures that the MVS operating environment continues to meet business and technical requirements.

Management of Planned Changes

Control Objective

Controls exist to ensure the authorization, approval, testing, implementation and documentation of changes or additions to the components of the information technology infrastructure.

Control Procedures

1. A formal approval process exists for making any changes to the information technology infrastructure. The process includes procedures such as:
   - Approval of the owner before a change is initiated.
   - Use of a standardized change request form, which describes the nature of and reason for the change and is approved by a designated manager.
2. "INFOMAN," a change control tool, provides procedures for change management, and "Remedy" provides procedures for problem management. Together they provide the following functions:
   - Change request initiation and status,
   - Change approval, and
   - Problem request initiation and status.
3. Changes are recorded electronically, along with approvals, creating a management trail of changes.
4. The responsibilities for initiating and approving system software changes are properly segregated. Review and approval of system software changes are required from appropriate TES staff, including the Change/Problem Management Manager.

5. The Change/Problem Management Manager reviews all system software change requests for proper approvals and determines whether the implementation and test plans (including procedures to go back to the original state) are adequate for the nature and risk of the proposed change.
6. Where appropriate, changes are accompanied by updates to documentation, updates to the help desk, and updates to operational procedures.
7. All information technology infrastructure changes are documented. Documentation includes change history, customer authorization, TES approvals, test plans and results, implementation instructions, and back-up plans.
8. Technical Information Bulletins are produced to advise users of upcoming changes and their effect on processing.
9. Vendor-recommended installation utilities, when available, are used to install system software changes, and changes are performed in accordance with vendor instructions.
10. Changes to system software are tested in the customer test/development system before they are implemented in the production environment.
11. Information technology infrastructure changes are implemented during the standard change window.
12. MVS staff sends a note to ITSD security when changes occur or are planned. TES makes most changes through the SPIN process. These are reviewed with ITSD for approval and implementation.
13. Weekly change meetings are held involving the Change/Problem Management Manager and technical services staff.
14. Reports are prepared on a regular basis showing planned changes and the status of changes, for review by information systems management.
15. Emergency changes follow the same process and controls as are used for other system software changes, except the time frame is compressed and the documentation and approvals may not be completed until after the fact.

16. There are back-up procedures for restoring previous to changes.
17. ITSD sends a list to TES outlining the emergency changes that have happened or changes to be implemented. This gives the department heads a chance to note any problems.

Conclusion

When the ITSD and TES data centres merged, a new process was implemented for managing software changes on the MVS platform. The "SPIN process" involved building a base system and then adding customizations unique to ITSD requirements. This establishes a common and consistent support structure to maintain, support and upgrade MVS. Many of the control procedures are part of this process.

The control procedures were suitably designed and existed at the time of our audit.

Preventing Accidental or Unauthorized Changes

Control Objective

Controls exist to protect against accidental or unauthorized changes to the information technology infrastructure.

Control Procedures

1. Data is protected through the use of the Resource Access Control Facility (RACF) to ensure that only authorized personnel are able to perform changes on the data.
2. The change control process requires that the resource owner agrees before the change goes ahead.
3. Access to system software libraries or directories is restricted to the appropriate TES system support staff and ITSD Security Services by RACF.
4. Activity related to key production system software datasets is recorded by RACF.
5. Standards require that all new or previously installed products in the government environment either interface with RACF or have an exit developed that meets security requirements (access to government files must be authorized) before implementation.

6. MVS and related IBM and third-party software products are implemented using the System Modification Program.
7. There is proper segregation between systems development, systems testing, systems support and computer operations.

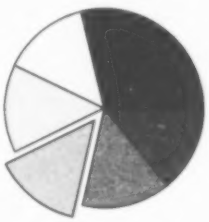
Conclusion

To ensure that only authorized personnel are able to perform changes, production system software and data are protected through the use of RACF. The following deficiencies in control procedures existed. These are further discussed under control procedures described under "D. Computer Operations."

- There is proper segregation between systems development, systems testing, systems support and computer operations, however we have noted a control deficiency regarding the segregation of duties related to the use of operator commands.
- Access to system software libraries and directories was not restricted to only appropriate system support staff by RACF.

We therefore concluded that the control procedures were suitably designed, and except for the two noted above, existed at the time of our audit.

D. Computer Operations



The mainframe computer installation runs under IBM's MVS operating system which, with its subsystems, schedules the processing of programs, monitors the activity within the system, and coordinates and controls other hardware devices such as terminals, tape and disk drives, and printers. There are inherent risks in computer operations, such as inaccurate or unauthorized processing, loss of systems availability and loss of confidentiality of information or systems.

Meeting User Requirements

Control Objective

Computer operations services at TES and ITSD are appropriately controlled and meet defined user requirements efficiently and effectively.

Control Procedures

General:

1. Operations and support service levels provided by TES are outlined in the contract with the Province.
2. TES keeps up with the supported version of hardware and software. Exceptions to the rule have a valid reason for being that way.
3. Automated tape management systems are implemented to provide standard tape inventory management controls, file/data identification controls, and expiration dates and retention criteria.

System logging:

4. An automated system is used to record all system activity.
5. There are controls over the completeness, accuracy and integrity of logs that are relied on to record system or operator activities. Access to log files of the System Management Facility (which records who uses the system) is restricted by RACF.
6. Key System Management Facility record types for audit, control and security usage are recorded.
7. There are procedures in place to ensure the timely dumping of the System Management Facility files to prevent data loss.
8. The System Management Facility dump program is executed from a write-protected library.
9. System Management Facility exits, which are active in the system and can be used to alter system processing, are properly documented and controlled.
10. Operators are not allowed to change individual System Management Facility parameters.
11. Automated techniques are used to analyze system logs.
12. Management, involved with information systems processing, review reports produced from the analysis of the system and manual logs.
13. RACF controls access to utility programs.

Problem identification and resolution:

14. Systems tools are used to automate operations and to identify and recover from operating errors.
15. Vendors have access to the system to monitor the hardware, software and storage media for any errors.
16. Escalation procedures have been clearly defined.
17. Similar procedures to those used for Change Requests are used for Problem Management. Problems requiring a change to the production environment are initiated as Change Requests.
18. Periodic maintenance of hardware and systems software is performed according to vendor specifications.
19. There is automatic robotic tape cleaning.
20. Direct Access Storage Device usage is monitored on a regular basis. Disk space reorganization and clean-up is performed regularly.
20. Service level reports are produced and tape mount levels are measured.

Conclusion

We found several problems:

- The controls over the completeness, accuracy and integrity of logs that are relied on to record the system activities were not adequate. A number of support staff had access levels greater than required, creating a risk that the log that records hardware and software error information and the log that records operator actions may be inaccurate or incomplete.
- The System Management Facility records the use made of the system's resources by individual users, providing a management trail for the system. Some support staff had inappropriate access to the program that routinely saves the System Management Facility log records to files, creating a risk that the management trail for the system may not be accurate or complete.
- The System Management Facility exits, which are subroutines that can be used to alter system processing, could be accessed by some support staff who do not require the access.

We therefore concluded that the control procedures were suitably designed, and except for the three noted above, existed at the time of our audit.

Ensuring the Integrity and Availability of Computer Operations

Control Objective

Both TES and ITSD ensure the integrity and availability of computer operations services.

Control Procedures

General:

1. Procedures exist to support day-to-day operating activities (including shut-down procedures, and restart and recovery procedures).
2. Documented procedures exist for data resource management and computer operations.
3. Documented procedures exist for production scheduling and control.
4. Software is used to the extent possible to reduce the number of discretionary manual procedures required, and to monitor the performance of manual procedures. Console operations and application scheduling are highly automated for all routine processes.
5. For batch jobs submitted by and under the control of TES, procedures exist to ensure only authorized jobs are included in the job schedule.

Problem identification and resolution:

6. Procedures exist for adequate problem identification, resolution and reporting of system failures, restart and recovery, emergency situations, and other unusual situations.
7. Daily meetings are held to review and analyze operations problems and their resolution. These meetings include all key personnel affected.
8. Operator actions in the event of incidents are reviewed for appropriateness and to ensure the results of processing are not adversely affected.

9. The automation of batch flows alerts staff of an event occurring and procedures for each event are in place and documented online.

10. Monitoring occurs 24 hours a day, 7 days a week.

Segregation of duties:

11. The privilege to issue operator commands is adequately controlled and reviewed regularly.

12. Command Centre Shift Supervisors supervise activities of operations personnel.

13. Approval, including user involvement where appropriate, is required for variations in parameters and control statements that might affect the way a batch job or an online system runs, and for departures from authorized set-up/run procedures.

14. Standard change management procedures exist to move revised production applications from the test area to production.

Job scheduling:

15. Job scheduling systems (ESP) are used to automate the submission of batch jobs. The scheduling product requires that documentation be prepared for each job implemented into ESP.

16. Job scheduling systems ensure that the application production environment is appropriately controlled.

    - The datasets of the job scheduling system, ESP, are secured by RACF.
    - The appropriate ESP general resources are defined to RACF to protect access to ESP.
    - Security rules are defined under RACF to protect access to ESP procedures and the use of ESP commands and functions. Access is restricted to appropriate personnel based on functional responsibilities.

Tape library:

17. There is a tape librarian function at the data centre.

    - Procedures exist within the tape library to ensure the integrity of files.

- The tape management system, IBM's Data Facility Systems Management Storage (DFSMS), is protected by the operating system security (RACF) and/or external access control software.
- The appropriate DFSMSrmm, the removable media management component of the DFSMS, general resources are defined to RACF to protect access to DFSMSrmm.
- Security rules are defined under RACF to protect access to DFSMSrmm commands and functions. Access is restricted to appropriate personnel based on job responsibilities.
- DFSMSrmm provides functionality to ensure that the correct volumes and datasets are used.
- Cataloguing procedures and standards are enforced.
- All tapes have external labels. Access to non-labelled tapes is controlled by RACF.
- DFSMSrmm has the standard control features implemented, including:
  - tape dataset identification controls
  - expiration dates and retention criteria
  - interface with RACF
  - logging of catalogue changes for restoration
  - multiple-volume/multiple-file processing
- Removal of tapes from the tape library must be authorized.
- DFSMSrmm inventories tape files used by operations.
- Use of bypass label processing is restricted.

MVS configuration:

18. Procedures exist for setting up batch jobs and the initial loading and subsequent use of system software, including dynamic changes to and maintenance of system parameters.
19. All government production jobs initiated or run by TES are authorized by the appropriate customers.
20. Defined control procedures exist for the implementation of Program Temporary Fixes and Authorized Program Analysis Report and user modifications.

MVS Configuration

The MVS environment is complex and much of the integrity of the MVS environment depends on the control over the MVS system configuration and system libraries. Access must be restricted to appropriate personnel and any changes approved and subject to proper change control procedures. Critical components of the system have been examined and are described below.

- The PARMLIB is the library that contains the parameters for building the system during an Initial Program Load. The settings affect performance, security and exposure to sensitive data.
- The Program Properties Table is a MVS function that will automatically grant programs special powers to run. Usually this involves back-up and recovery programs that need to access files without knowing the password, or programs that need to override exclusive control.
- The Authorized Program Facility is a mechanism in MVS software that enables programs to place themselves in "supervisor state," thereby bypassing IBM's system integrity and enabling the use of special operating system functions.
- The Master Catalog contains dataset and volume information necessary to locate datasets and user catalogs. It is read during a system initialization and is vital to the functioning of MVS.
- Exits are defined points in computer programs where control is passed from the calling program to a subroutine. The functions programmed into the subroutine are performed and completed before control is returned to the same exit point. Exits are intended to be user customizable and allow the data center to add functionality to the system without changing the system source code. Many exits run in an authorized state with the ability to bypass security.
- User Supervisor Calls (SVCs) are special routines that enable a normal, non-authorized task, to perform a system level task. To execute a SVC, a program will call the SVC. The SVC will assume control and execute the task, then return control to the initiating program. SVCs are very powerful because they run in supervisor state. They also create a source of possible security exposures to the operating system because the calling program has control in supervisor state.
- Job Entry Subsystem (JES2) is software that controls the execution of all jobs and manages the output from those jobs. JES2 schedules jobs for execution, manages the spools that contain output before and during printing, and manages printers. JES2 can be customized through parameters.
- IBM provides a set of general-purpose MVS utility programs. The utility programs provide a convenient method of performing such tasks as deleting, renaming, cataloguing, uncataloguing, moving, copying, merging and modifying datasets.
- Started tasks are subsystems such as JES, CICS and IMS, that are always running and available for user requests. They are run under a user ID which should be dedicated to the task and therefore, protected from being revoked or being used by an individual.

21. Access to the production PARMLIB datasets is restricted to appropriate personnel. Changes to all production PARMLIB datasets are approved and subject to change control procedures.

22. The contents of the Program Properties Table reflect standard IBM and appropriate installation-defined entries. Changes to Program Properties Table entries are approved and subject to change control procedures.

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21. Access to the production PARMLIB datasets is restricted to appropriate personnel. Changes to all production PARMLIB datasets are approved and subject to change control procedures.

22. The contents of the Program Properties Table reflect standard IBM and appropriate installation-defined entries. Changes to Program Properties Table entries are approved and subject to change control procedures.

23. Security rules are defined under RACF for each Authorized Program Facility (APF) library and access is restricted to appropriate personnel.
24. Access to the MVS Master Catalog is restricted to appropriate personnel.
25. Changes to exits are documented as to purpose and function. Standard IBM documentation is maintained for all MVS exits. Implementation of exits into the production environment is properly approved and subject to change control.
26. User Supervisor Calls (SVCs) are documented as to function, usage and operation. Standard IBM documentation is maintained for all IBM SVCs. Access to SVC source and load libraries is appropriately restricted.
27. Job Entry Subsystem (JES2) software options are appropriately set. Changes to JES2 options are approved and subject to change control.
28. Utility programs, which have the capability of bypassing the access control mechanism, can only be executed from protected libraries. Access to utilities is restricted to appropriate personnel.
29. Started tasks (STCs) are protected by ID association. Associated IDs have access to the STC only, have no online access authority, and are provided with secure passwords.

Computer output:

30. Computer output is produced in a secure area.
31. RACF controls logical access to the output on the spool.
32. Procedures exist for record destruction and handling, and facilities are provided for disposing of sensitive documentation and media.

Back-up tapes:

33. Logical access to back-up tapes is secured by RACF.
34. Disaster Recovery Planning (DRP) testing does check the back-up.

Conclusion

We found several problems:

- Support staff from several departments were able to issue all operator commands, yet there was no regular review of the issuance of the commands. This creates a risk that operator commands can be used inappropriately, resulting in data security, system security or system performance being compromised. Management told us that it would not be operationally efficient to have all commands issued through operators. However, given the security and performance risk that these commands could generate, and the lack of other controls protecting the commands, we believe access should be granted only to users who have a specific reason to issue these commands.
- Security rules are defined under RACF to protect access to DFSMSrmm commands and functions. However, a number of support staff had access to some DFSMSrmm commands and functions, even though they did not require it. The access would allow individuals to perform such actions as deleting the data on a tape, thus risking loss of data integrity and confidentiality.
- Inappropriate support staff had the ability to create non-labelled tapes. This, in our view, puts the integrity of government information at risk.
- Use of bypass label processing is restricted, but there existed inappropriate access to the facility that controls the use of bypass label processing. This created a risk that the integrity and confidentially of data files could be compromised.
- Although security rules were defined under RACF for each Authorized Program Facility (APF) library, there was excessive access by a number of support staff to the commands that could enable programs to become APF authorized.
- The Master Catalog, which contains information to allow all data to be located, was write-accessible to a number of support staff. Inappropriate access to the Master Catalog could result in unauthorized changes to or destruction of the catalog, which would compromise the security and performance of the system.
- Supervisor Call libraries, containing programs that communicate with the operating system, were accessible to an inappropriate number of support staff. This access could compromise operating system security.

- Utility programs, which have the capability of bypassing security controls, should be executed only from protected libraries. All MVS users had "execute" access to a utility that could overwrite tape labels, regardless of the security protection on the tape.
- Many started tasks were running under user IDs that were unprotected. This created a risk that the subsystems could be stopped if the user ID was revoked. We also found that some of these user IDs had online sessions, meaning that if someone was able to log on with the ID, he or she would also gain access to many other resources.
- A number of support staff had the capability to either read, copy or delete a significant number of back-up tapes. Those excessive access capabilities could result in unauthorized retrieval of government information from the tapes.

We concluded that the control procedures were suitably designed. Due to the deficiencies noted above, eight control procedures did not exist at the time of our audit.

E. Information Systems Support

System software is integrated with business applications, providing functionality such as database management. Changes to the system software settings could significantly impact the business. Also, the configuration of the network can result in benefits or risks to the security and control of the organization, depending on the way that settings are established. Therefore, changes to system software settings need to be properly managed and controlled.

System Software Procedures

Control Objective

Systems software procedures and activities contribute to the reliability, effectiveness and control of computer operations services.

Control Procedures

1. Vendor instructions and recommended configuration settings are adhered to unless there is an explicit need for customization.
2. Hardware and software performance is monitored and compared to industry benchmarks.

3. Products are evaluated on functionality and pricing, and requests for proposals are issued depending on the dollar amount and the selection of products (if there is a choice).
4. Any PC attaching to the TES network has an anti-virus protection program. TES has standardized on McAfee.
5. The security departments in TES and ITSD are pro-active in addressing viruses.

Conclusion

We found that the system software procedures and activities being used by TES and ITSD were providing reliable and effective control over computer operations services.

The control procedures were suitably designed and existed at the time of our audit.

Logical Access to Network Components

Control Objective

Logical access over network components installed on the host is appropriately controlled.

Control Procedures

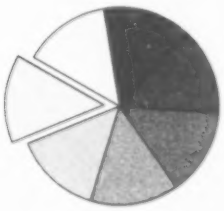
1. Access to the MVS environment is authorized by RACF.
2. Critical network and systems software components and subsystems have been configured to utilize the security provided by the operating systems and/or external access control software.
3. Access to network and system software files/datasets is restricted to the appropriate staff.
4. Access to network and system utilities is restricted to the appropriate system support staff.

Conclusion

Some support staff inappropriately had the ability to change or delete network system files. This creates a risk that system performance could be negatively affected.

We concluded that the control procedures were suitably designed, and except for the one noted, existed at the time of our audit.

F. Information Technology Security



Information technology security should be a balance between enabling staff to access information and systems easily and efficiently, and controlling the access that is permitted. Security requirements can be communicated through the implementation of a security architecture that defines the organization's overall approach to security, including policies and procedures, awareness programs and compliance monitoring.

Integrity, Confidentiality and Availability of Information Technology Processing

Control Objective

Controls are in place to ensure the integrity, confidentiality and availability of information technology processing throughout the organization.

Control Procedures

Organizational framework:

1. Procedures exist within TES to provide an organization-wide security architecture.
2. TES has defined and implemented security policies that describe: the assets to be protected; management and employee responsibilities for protecting the assets; and TES's intention to enforce its security policies.
3. The security policies have received approval from the Vice-President, Operations.
4. The Vice-President, Operations is responsible for establishing security policies and standards and for ensuring compliance with and achievement of policy.
5. Each TES employee must read and adhere to the company's Business Conduct Guidelines.
6. TES employees must sign a confidentiality agreement.

Assignment of responsibilities:

7. An owner is assigned to all resource types (i.e. development programs, production programs, production datasets, and system datasets) to ensure that all actions affecting a resource are reviewed by the appropriate person.

8. Data owners are responsible for the classification of the data. The custodians' responsibility includes the exercising sound business judgement, complying with applicable directives and agreements, and administering owner-specified business and asset protection controls. The owner of the data decides whether it is confidential (ITSD responsibility).

9. Security functions exist within the TES Operations Division with responsibility for developing, maintaining and ensuring ongoing compliance with comprehensive security standards and procedures.

10. TES is divided into a number of divisions, one of which is Operations. The Operations Division (which is primarily responsible for maintaining the government MVS environment) is divided into a number of departments and responsibility areas, each of which has distinct and separate responsibilities.

11. Management of TES assigns responsibilities to each functional group responsible for information technology administration and operations. Function responsibilities and reporting relationships are defined and communicated.

12. Each functional group's responsibilities are segregated. In particular, data centre operations, system software support, physical and logical security and monitoring, application software development and maintenance, change management and help desk functions are segregated.

13. Job descriptions outline responsibilities for each position.

14. Positions exist within each service delivery area of the organization to provide adequate supervisory control.

15. Data for the ministries is segregated and an approval process must be followed for TES to get access.

16. The appropriateness of TES access to the government-computing environment is reviewed every six months.

17. Vanguard and RACF courses, conferences, seminars and user training sessions (in ESP, for example) are conducted.

Conclusion

The control procedures were suitably designed and existed at the time of our audit.

Logical Access to Systems and Information

Control Objective

Logical access to systems and information is reliably controlled.

Control Procedures

User IDs and passwords:

1. Standard procedures exist for requesting the establishment of new user ID accounts and additional access capabilities.
2. Standard procedures exist for assigning and controlling passwords. All users are assigned unique user IDs and all IDs are assigned a password.
3. Passwords are changed every 40 days for MVS user accounts. Procedures exist to suspend or temporarily deactivate (revoke) user accounts in the event of specified unsuccessful access attempts. As well, procedures exist to automatically revoke access for user IDs that are inactive over a specified period of time.

   3a. Non-expiring passwords have been enabled for non-government users where application owners have requested and approved its use based on specific documented business needs. The following procedures exist:

   - User IDs are revoked after three invalid password attempts.
   - User IDs are automatically revoked after 90 days of inactivity.
   - User IDs are restricted to "Inquiry Only" access.
   - Authority to reset forgotten passwords is restricted to the local security contact or a central Help Desk.
   - Authority to resume revoked user IDs is restricted to the local security contact or a central Help Desk.
   - The local security contacts routinely revoke the user IDs of individuals who leave their organizations or change responsibilities and no longer require access.

- Users are able and encouraged to change passwords if they wish or as required.
- Information is provided to users to assist them in the selection of secure passwords.
- A non-expiring password is set at the individual user ID level, not globally.

3b. The use of non-expiring passwords is restricted to machine-to-machine connectivity and to user IDs that have been granted this condition based on ITSD's acceptance of the users' documented business needs. These exceptional user IDs are subject to the following RACF rules:

- The user ID will be disabled after three unsuccessful attempts.
- The user ID will be revoked after 90 days of inactivity.

4. Access by ITSD and TES users is reassessed when their job function changes and deleted immediately upon their employment termination.

5. The operating systems and the external access control software (RACF) have been properly implemented (with appropriate security options and parameters) to provide users with the capability of securing data, applications and systems resources. Write-access to system software files is restricted to TES employees according to job responsibilities. Individual accountability can be determined when such access is made. Access to government data and program libraries by TES employees is also restricted according to job responsibilities. Individual accountability can be determined when such access is made.

Security Administrators:

6. A separation exists between the security administrators and the data processing area in terms of reporting structure and job responsibilities. Only authorized individuals have security administration capabilities. Individuals with security administrator user IDs do not have access to any resources except those required to perform their job function.

7. RACF allows access through the assignment of group and individual profiles. Management performs an evaluation of access assignments to ensure they are still appropriate. In particular, an independent review of the security administrators' actions is performed.
8. The group data security administrator structure effectively controls and manages ownership of RACF profiles.
9. RACF interface is installed for the critical system software components.
10. System-wide RACF control options are set to provide an acceptable level of security.
11. Access to the "special" and "operations" attributes is restricted according to job responsibilities.
12. The global access table is only used for system-wide resources, based on a business need.
13. Access to the RACF database and its back-ups is highly restricted.
14. Changes, deletions and additions to the RACF database are made through appropriate procedures and adequately supported by approved documentation.
15. RACF control options are not changed without appropriate authority. Access to change RACF options is appropriately restricted.

Customer Information Control Systems (CICS) regions:

16. Parameters to provide a RACF interface with the CICS regions are set. Security rules are defined under RACF and CICS to protect access to CICS transactions.

Database 2 (DB2):

17. Parameters to provide a RACF interface with the DB2 are set. DB2 is set up in the RACF DSNR general resource class.

Information Management System (IMS):

18. Parameters to provide a RACF interface with IMS are set. The APIMS general resource class is defined to RACF to protect access to IMS applications.

Emergency user IDs:

19. Emergency user IDs have been assigned access to the appropriate resources. Adequate controls are in place for the release and revocation of emergency user IDs. Sensitive resources that are controlled by emergency user IDs are restricted from other users. Activity performed through the use of emergency user IDs is logged, documented and reviewed by management.

Security access logs and reports:

20. Key security events or violations in the Network and MVS environments are logged. Security Services staff review and investigate key security events, such as successive violations to critical resources and invalid access attempts. Security violations of any serious nature are sent to senior management and recorded and filed as security incident records. Access and access violation reports are generated on a daily and weekly basis and made available to government and TES management. Weekly security reports are reviewed and appropriately investigated and followed-up by ITSD security personnel. The security personnel also advise government clients of unprotected datasets identified in the weekly reports.

Logical access audits:

21. Internal audit at TES monitor security administration on a regular basis. Approximately every six months, Lotus Notes is used to audit whether a person still works on the same job and needs the same access.

    The retention period for the System Management Facility records, which is the source for RACF information, is one year.

    The use of user IDs with the "special" attribute is audited by RACF and reviewed by TES and ITSD.

    RACF audits all access to datasets where access is granted because the user ID has the "operations" attribute.

22. A tape management system is in place to control access to tape volumes.

Conclusion

The Resource Access Control Facility (RACF) provides the ability to identify and authenticate users, authorize users to access resources and record and report unauthorized access attempts. Access control information about users, groups of users, datasets, and general resources defined to RACF is stored in the RACF database.

Logical access to the system is restricted by the requirement of a unique user ID and password. The authentication of the user through the unique user ID and password combination ensures personal accountability. Standard procedures exist for requesting the establishment of new user ID accounts and additional access capabilities and for assigning and controlling passwords.

Responsibility for security administration has been assigned to ITSD Security Services and the TES Security group. Group Data Security Administrators (GDSAs) represent the users in TES, ITSD, ministries and public bodies. Generally, the security administrators should not perform any other data center duties which could result in a segregation of duties conflict.

We found several problems:

- Where non-expiring passwords have been enabled for non-government users, the user IDs are to be restricted to "Inquiry Only" access. Two user IDs had access capabilities greater than "Inquiry Only," creating an increased risk of unauthorized access to the system through a non-government user ID.
- Several government user IDs had—contrary to ITSD policy—non-expiring passwords and on-line access.
- Support staff had inappropriate access to government data and program libraries, creating a risk of unauthorized access to government information.
- Several staff responsible for data processing also had system-wide security administration capabilities. This creates a risk that unauthorized activities may be performed.
- The evaluation of access assignment was not being adequately performed. In several instances, support staff were granted excessive access to system files and government information.

- Access to the "special" and "operations" attributes was, in some instances, inappropriately granted. This creates a risk that users may inappropriately alter system components or improperly use their authority to circumvent RACF.
- Access to the RACF database was excessive. This creates a risk of unauthorized access to security information defined in RACF. The potential for inappropriate changes, deletions and additions to the RACF database also creates a risk that a user may be given unauthorized access to system resources or government information.
- Access to RACF options was not appropriately restricted. Improper changes to RACF control options may result in unauthorized access to various data resources, including government data, and the possible destruction of government information. All system-wide RACF control options, except logging of security information, can be activated and deactivated by users with the "system special" attribute. We discussed earlier our concern about the appropriateness of the users who have access to "special" at a system level.
- Government programs in the Customer Information Control Systems regions were not adequately restricted to prevent unauthorized users from gaining access.
- Access granted to one RACF group had been building up over a number of years and was excessive. The access extends to government applications and data files processed in Information Management Systems. In our view, if systems support staff are granted access to assist in a support capacity, that access should be revoked once the task is complete.

We concluded that the control procedures were suitably designed. Due to the deficiencies noted above, ten control procedures did not exist at the time of our audit.

Facility Controls: 4000 Seymour Place, Victoria

Control Objective

The information technology resources are housed and operated in appropriate environmental conditions.

Control Procedures

Physical security:

1. Commissionaires in the ITSD Security Services group use closed-circuit TV cameras to monitor the outside of the 4000 Seymour Place building 24 hours a day, and they perform a series of patrols each day.
2. Access in and out of the 4000 Seymour Place building is controlled and monitored by the commissionaires.
3. Individuals must display an appropriate identification badge or cardkey before access is granted to the 4000 Seymour Place building.
4. Procedures are in place to control the issue of identification badges and cardkeys and to safeguard unissued cardkeys.
5. The 4000 Seymour Place building is divided into access zones. Access to each zone is restricted to authorized individuals through the use of an access control system.
6. The access control system logs all unauthorized access attempts to access zones. When an alarm is triggered, a commissionaire investigates.
7. Security incidents are logged by a commissionaire and reviewed by the Physical Security Officer daily.
8. Standard emergency procedures, documents and checklists are available at TES and ITSD to provide assistance to the commissionaires and staff.

Protection from fire and environmental damage:

9. Fire detection and suppression devices are installed in the data centre and in the rest of the building.
10. Moisture detectors are installed in the data centre area.
11. Three water chillers with redundant capacity are installed in the data centre area to cool the computer equipment.

Back-up power:

12. Redundant power supply is available to support the data centre processing and communications equipment.

13. A battery back-up supports the internal telephone system, and telephone and radio devices are available for use in the event of an emergency.

Conclusion

The control procedures were suitably designed and existed at the time of our audit.

Facility Controls: Burnaby Data Centre

Control Objective

The information technology resources are housed and operated in appropriate environmental conditions.

Control Procedures

Physical security:

1. A security guard controls all access to the data centre.
2. A cardkey access system controls access to the command centre and to the areas within the data centre, based on an individual's job responsibilities.
3. All visitors to the data centre must be approved by an authorized TES employee who signs a log retained by the security guard.
4. Formal procedures exist to authorize and maintain card access rights to TES's facilities.
5. Video cameras and security guards monitor all data centre fire exit doors.
6. Active operator consoles are located in secure areas.
7. No physical operator consoles are located outside the command and data centres.
8. An Uninterruptible Power Supply (UPS) system is linked to the doors leading to the data centre to provide operation during power failures.

Protection from fire and environmental damage:

9. A Halon gas fire extinguishing system, which operates automatically on detection of a fire, protects the data centre. Smoke and heat detection devices, which automatically trigger the Halon system, have been installed under the ceilings and below the raised floors of the data centre. These devices are directly connected to the data centre alarm system, which alerts building security, the TES Provincial Network Operational Centre located at a remote site, and the local fire department. The Halon fire extinguishing system and the detection devices are maintained and inspected on a regular basis.

10. Portable fire extinguishers are strategically placed throughout the data centre and inspected on an annual basis.

11. Moisture detectors and drains are located under the raised floor in the data centre near the air conditioning units.

12. The data centre has drainage beneath the raised floors.

13. The data centre has air conditioning and humidity control systems independent of the rest of the building.

Back-up power:

14. Electrical power supply for the facility is protected by redundancy of equipment, including an alternate connection to BC Hydro, duplicate UPS equipment, and several diesel generators.

15. The power supply system is maintained and inspected on a monthly basis.

Conclusion

There is no government CPU or disk room in the Burnaby Data Centre; however key departments such as computer operations and change management are located there.

The control procedures were suitably designed and existed at the time of our audit.

Facility Controls: Back-up Facility, Victoria

Control Objective

The information technology resources are housed and operated in appropriate environmental conditions.

Control Procedures

Physical security:

1. Access in and out of the TELUS building is controlled and monitored by access card readers.
2. Individuals must use an appropriate cardkey before access is granted to the building.
3. Procedures are in place to control the issue of identification badges and cardkeys and to safeguard unissued cardkeys.
4. The building is divided into access zones. Access to each zone is restricted to authorized individuals through the use of an access control system.
5. The access control system logs all unauthorized access attempts to the access zones.
6. Standard emergency procedures, documents and checklists are available to provide assistance to staff.

Protection from fire and environmental damage:

7. Fire detection and suppression devices are installed in the back-up centre and in the rest of the building.
8. Water chillers with redundant capacity are installed in the building to cool the computer equipment in the back-up facility.

Back-up power:

9. Redundant power supply is available to support the data centre processing and communications equipment.

Conclusion

The control procedures were suitably designed and existed at the time of our audit.

Personnel Controls: Technical Skills

Control Objective

Appropriate consideration is given to technical skills when management and staff are hired into information technology positions.

Control Procedures

1. Prospective employees are required to submit a resume with references.
2. New employees are screened during the interviewing process to determine their suitability.
3. Hiring and promotions are indicative of the skill set of the individual and the related activities needed to perform the functions.

Conclusion

The control procedures were suitably designed and existed at the time of our audit.

Personnel Controls: Security Issues

Control Objective

Appropriate consideration is given to security issues when management and staff are hired and terminated.

Control Procedures

1. Policies and procedures relating to all aspects of the hiring and termination of employees have been developed and implemented.
2. At the time of initial employment, all employees and contract personnel are required to acknowledge that they have read TES's Business Conduct Guidelines, and to sign an "Employee Agreement Respecting Confidential Information and Intellectual Property."
3. TES managers are responsible for ensuring that the security requirements for terminated employees are met.
4. TES senior management is involved in all involuntary terminations to ensure that the termination is immediate, and that all security requirements take place immediately.

Conclusion

The control procedures were suitably designed and existed at the time of our audit.

Security Policies and Procedures

Control Objective

Information technology security is operated in an efficient and effective manner.

Control Procedures

1. Policies and procedures exist that support the efficient and effective implementation, operation and maintenance of security measures.
2. Policies, procedures and standards are communicated to the appropriate departments.

Conclusion

The control procedures were suitably designed and existed at the time of our audit.

G. Information Technology Back-up and Recovery

As organizations continue to become increasingly reliant upon information technology, there is an heightened importance of information technology back-up and the ability for recovery after an interruption. Information technology recovery planning has become an important part of business continuity planning, where the restoration of systems are prioritized according to their business need for availability.

Disaster Recovery Planning, Back-up and Recovery, and Insurance

Control Objective

Critical information systems processing functions can be resumed promptly in the event of significant disruption to normal computer operations.

Control Procedures

Disaster recovery planning:

1. A Disaster Recovery Plan exists for the recovery of the MVS processing platform in the event of service interruption.

2. The Disaster Recovery Plan:
   - considers yearly capacity planning,
   - includes details of team members and contact procedures, and
   - includes emergency evacuation procedures.
3. An agreement exists with SunGard for the use of alternate processing facilities for the MVS processing platform in the event of a disaster affecting the TES facilities.
4. Formal assignment of disaster-related responsibilities is included in the job descriptions of the MVS group, Storage Management group, Database Administration and Operation staff.
5. The plan describes each team's role and procedures during all phases of the recovery plan, including initiation, hotsite restoration, assessment, interim site migration and reconstruction (if necessary), and return to the home site.
6. Damage impact assessments are part of the Disaster Recovery Plan.
7. The Disaster Recovery Plan is tested on an annual basis. The most recent test was performed in July 2001.
5. Joint ITSD and TES meetings are held with the participating clients before and after the test to discuss the results and suggest new methods to help improve the process.
6. The test results are documented and appropriate action is taken to resolve any problems encountered.
7. The Disaster Recovery Plan is updated after every disaster recovery test.

Back-up and Recovery:

8. Back-up procedures exist for full image and incremental back-ups of system and user files and datasets and application databases.

9. Procedures exist for all normal operating activities and functions such as restart and recovery procedures.
10. Data, system and documentation back-ups are stored off-site and kept for specified periods.
11. Logical access to back-up tapes is secured by access control software.
12. Where appropriate, the back-up logs are reviewed and the existence and usability of the data back-ups are periodically verified.
13. Critical files, which would need to be recovered, are defined.

Insurance:

14. The Risk Management department at TELUS administers computer equipment insurance.
15. Business interruption insurance is covered under the above policy.
16. Boiler and machinery insurance is covered under the above policy.
17. All insurance coverage is reviewed and revised annually by the Audit Committee of the Board.

Conclusion

Mission critical programs, data files, computer resources and operating systems are covered by the Disaster Recovery Plan. Information technology support requirements for business processes deemed less critical are also addressed. If the computer center was damaged or inaccessible for an extended period of time, critical application processing would be re-established within 24 hours. All other non-development applications would be restored as time and resources permit, probably within 48 to 72 hours.

The control procedures were suitably designed and existed at the time of our audit.

Response from the Ministry of Management Services

The Ministry of Management Services is pleased to respond to the Auditor General's findings on internal control procedures in the MVS Environment.

Firstly, I would like to express my appreciation for the comprehensive analysis the auditing team has provided. The Ministry engaged the Auditor General because we believe audits such as this are important tools to ensure that we evolve to meet changes in technology and business requirements. Most of the environment management practices that were evaluated have been in place for over 20 years and they received an unqualified opinion in a similar audit performed in 1997.

There have been no known security breaches in the MVS environment. However, the change from an in-house to outsourced delivery model and the increased use of the Internet have significantly impacted the security and control of this computing environment. These changing conditions demand a change in practices and this study will help us to meet that challenge.

Regarding the findings of the study, at the time of writing, most of the Auditor General's recommendations have been implemented. We have adjusted the access privileges of ministry and Telus Enterprise Solutions (TES) system staff to improve accountability and control over these functions. We have also adjusted any user accesses that were inconsistent with security policy and are implementing monitoring procedures to identify future violations quickly.

Projects are underway at the Ministry and TES to address the remaining recommendations, with planned completion by February 2003:

- more complex user authorization scheme for government applications that use the Information Management System (IMS) transaction processing monitor will be implemented, thereby allowing access to be granted and restricted on a more granular basis.
- Disaster recovery backup data will be assigned specifically to the data owner to reduce the risk of inappropriate access to data during a disaster recovery exercise.
- An additional layer of authentication will be implemented in the Customer Information Control Systems regions (CICS) to increase the security of these applications.

These changes have some potential to affect the government's applications, so we will be working closely with the application owners to ensure any service impacts are minimized.

Appendices

Appendix A

Summary Financial Statement Audit Methodology

When examining for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The principal source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he or she carry out the duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the auditor's report on the financial statements.

In addition to these broad standards, the CICA makes other, more detailed, recommendations related to matters of auditing practice.

Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations that are audited by other auditors and that form part of the Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. It must be realized, however, that the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In auditing the government financial statements, or of any large organization, it is neither feasible nor economically desirable to examine every transaction. Instead, using our knowledge of the government's business, its methods of operation and systems of internal control,

we assess the risk of error occurring and then designs audit procedures to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the government's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality*, which is expressed in dollar terms, and *overall audit assurance*, expressed in percentage terms.

- *Materiality* relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that a knowledgeable reader's judgement, based on the information contained in the statements, would be influenced.

  In our audit of the Summary Financial Statements, we have assumed that an error in the current year's operating results in excess of one-half of 1% of the gross expense of the government would be considered material.

- *Overall audit assurance* represents, in percentage terms, how certain the auditor wants to be that the audit will discover errors, if any, in the financial statements, which in total exceed materiality.

  In our audit of the Summary Financial Statements, we planned our work so as to achieve an overall audit assurance of 95% that the audit would detect total error in excess of materiality. In choosing the level of assurance, we consider factors such as the expectations of the users of the financial statements and the nature of the audit evidence available.

In planning our audits of financial statements, we exercise professional judgment in determining the application of these two key factors. Professional judgment is influenced by our knowledge of the requirements of readers of the financial statements, and by what is generally accepted as being appropriate by auditors of similar organizations.

We continuously revise and update our auditing methodology to keep pace with auditing best practices.

Appendix B

Government Organizations Included in the 2001/2002 Summary Financial Statements, and Their Auditors

	Audited by	
	Auditor General	Private Sector Auditors
552513 British Columbia Ltd.	✓	
577315 British Columbia Ltd.	✓	
580440 B.C. Ltd.	✓	
632121 British Columbia Ltd.	✓	
634349 British Columbia Ltd.	✓	
B.C. Community Financial Services Corporation		✓
B.C. Festival of the Arts Society		✓
B.C. Games Society		✓
B.C. Health Care Risk Management Society		✓
B.C. Pavilion Corporation		✓
BC Society for the Distribution of Gaming Revenue to Charities	✓	
BC Transportation Financing Authority	✓	
BCIF Management Ltd.		✓
British Columbia Arts Council[1]		
British Columbia Assessment Authority	✓	
British Columbia Buildings Corporation		✓
British Columbia Enterprise Corporation	✓	
British Columbia Ferry Corporation		✓
British Columbia Health Research Foundation		✓
British Columbia Heritage Trust		✓
British Columbia Housing Management Commission		✓
British Columbia Hydro and Power Authority		✓
British Columbia Immigrant Investment Fund Ltd.		
British Columbia Liquor Distribution Branch[2]	✓	
British Columbia Lottery Corporation		✓
British Columbia Railway Company		✓
British Columbia Securities Commission	✓	

[1] The entity's financial statements were unaudited.
[2] A special operating agency under the Ministry of Competition, Science and Enterprise

Appendix B

	Audited by	
	Auditor General	Private Sector Auditors
British Columbia Trade Development Corporation		✓
British Columbia Transit		✓
Canadian Blood Services		✓
Columbia Basin Trust		✓
Columbia Power Corporation	✓	
Creston Valley Wildlife Management Authority Trust Fund	✓	
Discovery Enterprises Inc.		✓
Duke Point Development Limited	✓	
First Peoples' Heritage, Language and Cultural Council		✓
Fisheries Renewal BC	✓	
Forensic Psychiatric Services Commission		✓
Forest Renewal BC	✓	
New Forest Opportunities Ltd.	✓	
Homeowner Protection Office	✓	
Industry Training and Apprenticeship Commission	✓	
Insurance Corporation of British Columbia		✓
Land and Water British Columbia Inc.	✓	
Legal Services Society	✓	
Oil and Gas Commission	✓	
Okanagan Valley Tree Fruit Authority		✓
Organized Crime Agency of British Columbia Society		✓
Pacific National Exhibition		✓
Private Post-Secondary Education Commission		✓
Provincial Capital Commission	✓	
Provincial Rental Housing Corporation		✓
Rapid Transit Project 2000 Ltd.		✓
Science Council of British Columbia		✓
Tourism British Columbia	✓	
Vancouver Trade and Convention Centre Authority	✓	
Victoria Line Ltd.	✓	

Appendix C

The 2001/2002 Summary Financial Statements

Report of the Auditor General of British Columbia

ON THE SUMMARY FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF BRITISH COLUMBIA

To the Legislative Assembly
of the Province of British Columbia

I have audited the summary financial statements of the Government of the Province of British Columbia consisting of the statement of financial position as at March 31, 2002, and the statements of operations, changes in cash and temporary investments, and changes in net liabilities for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

As required by the *Auditor General Act*, I advise Members of the Legislative Assembly these financial statements are presented in accordance with the stated accounting policies and on a basis consistent with that applied to the comparative amounts of the preceding year. In addition, I advise that I have been provided all of the information I required.

Reservation

In note 1 to these financial statements, the Government reports that its stated accounting policies are not fully consistent with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants. Consequently, these financial statements do not include the complete planned and actual financial results of schools, universities, colleges and institutes, and health care organizations.

. . . 2

Had a complete accounting been provided as at March 31, 2002, it would be expected that financial assets increase by $2,828 million ($2,531 million at March 31, 2001), liabilities increase by $3,102 million ($2,535 million at March 31, 2001), non-financial assets increase by $3,129 million ($2,728 million at March 31, 2001), and the accumulated deficit decrease by $2,855 million ($2,724 million at March 31, 2001). Similarly, for the year ended March 31, 2002, revenues increase by $2,214 million ($1,841 million for 2001), expenses increase by $1,989 million ($1,787 million for 2001), and the annual deficit decrease by $225 million (surplus increase by $54 million for 2001).

Opinion

In my opinion, except for the effects of my reservation explained in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2002, the results of its operations and the changes in net liabilities and its cash and temporary investments for the year then ended, in accordance with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants.

Wayne Strelioff

Victoria, British Columbia
May 24, 2002

Wayne Strelioff, CA
Auditor General

Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia

Responsibility for the integrity and objectivity of the Summary Financial Statements of the Government of the Province of British Columbia rests with the government. These financial statements are prepared by the Comptroller General in accordance with the accounting policies as determined by Treasury Board. The fiscal year of the government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control. These systems give due consideration to costs, benefits and risks, and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, Crown corporations and agencies to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in that respect are contained in section 10 of the *Auditor General Act*.

Annually, the financial statements are tabled in the Legislature as part of the Public Accounts, and are referred to the Select Standing Committee on Public Accounts of the Legislative Assembly. The Select Standing Committee on Public Accounts reports to the Legislative Assembly on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:

GARY COLLINS
Chair, Treasury Board

Summary Financial Statements
Statement of Financial Position
as at March 31, 2002

	Note	In Millions 2002	2001
Financial Assets		$	$
Cash and temporary investments	3	780	548
Warehouse Program investments	4	1,067	1,312
Accounts receivable	5	2,668	2,640
Inventories for resale	6	250	281
Due from other governments	7	158	229
Due from self–supported Crown corporations and agencies	8	384	422
Equity in self–supported Crown corporations and agencies	9	2,525	3,001
Loans, advances and mortgages receivable	10	594	558
Other investments	11	288	270
Loans for purchase of assets, recoverable from agencies	12	7,552	7,437
		16,266	16,698
Liabilities			
Accounts payable and accrued liabilities	13	3,219	3,036
Due to other governments	14	100	104
Due to Crown corporations, agencies and funds	15	80	71
Deferred revenue	16	639	618
Employee pension plans (unfunded pension liabilities)	17	6	1,477
Taxpayer–supported debt	18	26,952	24,664
Self–supported debt	19	8,500	8,619
		39,496	38,589
Net liabilities	21	(23,230)	(21,891)
Non–Financial Assets			
Tangible capital assets	22	11,206	11,091
Prepaid capital advances	23	7,033	6,905
Prepaid program costs	24	125	165
Other assets	25	156	221
		18,520	18,382
Accumulated surplus (deficit)	26	**(4,710)**	**(3,509)**
Contingencies and commitments	27		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with the accounting policies as determined by Treasury Board.

ARN VAN IERSEL
Comptroller General

Summary Financial Statements
Statement of Operations
for the Fiscal Year Ended March 31, 2002

	In Millions		
	2002 Estimates (Note 31)	2002	2001
Revenue	$	$	$
Taxation (Note 28)	13,280	14,061	14,263
Natural resources	3,961	3,263	4,181
Fees and licences	2,205	2,236	2,196
Investment earnings (Note 28)	809	818	975
Miscellaneous	915	1,035	1,372
Net earnings of self–supported Crown corporations and agencies (Note 9)	1,608	1,085	1,725
Contributions from the federal government	3,115	3,201	3,136
	25,893	25,699	27,848
Expense			
Health (Note 29)	9,752	10,067	9,064
Social services	3,553	3,442	3,263
Education (Note 29)	6,867	6,930	6,436
Protection of persons and property	1,289	1,312	1,227
Transportation (Note 29)	1,505	1,543	1,546
Natural resources and economic development	1,749	1,853	1,793
Other	1,252	823	761
General government	458	532	407
Interest (Note 29)	1,806	1,670	1,873
	28,231	28,172	26,370
Surplus (deficit) for the year before unusual items	(2,338)	(2,473)	1,478
Forecast allowance	(500)		
Gain (loss) on pension settlement (Note 34)	1,338	1,464	(52)
Restructuring exit expense (Note 35)		(224)	
Surplus (deficit) for the year	**(1,500)**	**(1,233)**	**1,426**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 2002

	In Millions			
	2002			2001
	Receipts $	Disbursements $	Net $	Net $
Operating Transactions				
Surplus (deficit) for the year			(1,233)	1,426
Non-cash items included in surplus (deficit)				
Amortization of tangible capital assets			556	536
Amortization of prepaid capital advances			401	363
Amortization of public debt deferred revenues and deferred charges			70	30
Amortization of unfunded pension liability				(628)
Concessionary loan adjustments increases (decreases)			(6)	1
Gain (loss) on pension settlement			(1,464)	52
Valuation adjustments			205	52
Net earnings of self-supported Crown corporations and agencies			(1,085)	(1,725)
Accounts receivable (increases)			(45)	(277)
Due from other governments decreases			71	29
Due from self-supported Crown corporations and agencies decreases (increases)			38	(5)
Accounts payable increases			222	68
Due to other governments (decreases)			(4)	(33)
Due to Crown corporations, agencies and funds increases (decreases)			9	(11)
Unfunded pension liability payments			(7)	
Items applicable to future operations increases			45	29
Contributions of self-supported Crown corporations and agencies			1,569	1,567
Cash derived from (used for) operations			(658)	1,474
Capital Transactions				
Tangible capital assets (acquisitions)	103	945	(842)	(1,196)
Prepaid capital advances (increases)		529	(529)	(751)
Cash (used for) capital	103	1,474	(1,371)	(1,947)
Investment Transactions				
Loans, advances and mortgages receivable (issues)	131	179	(48)	(173)
Investment in self-supported Crown corporations and agencies (increases)				(24)
Other investments—net decreases (increases)		5	(5)	9
Cash (used for) investments	131	184	(53)	(188)
Total financing (requirements)			(2,082)	(661)

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments for the Fiscal Year Ended March 31, 2002—Continued

	In Millions			
	2002			2001
Financing Transactions[1]	Receipts $	Disbursements $	Net $	Net $
Public debt increases (decreases)	23,802	21,639	2,163	(574)
Derived from Warehouse Program investments	(4,532)	(4,777)	245	9
Derived from (used for) purchase of assets, recoverable from agencies	(6,017)	(5,923)	(94)	205
Cash derived from (used for) financing	13,253	10,939	2,314	(360)
Increase (decrease) in cash and temporary investments			232	(1,021)
Balance—beginning of year			548	1,569
Balance—end of year			**780**	**548**

[1]Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Change in Net Liabilities
for the Fiscal Year Ended March 31, 2002

	In Millions	
	2002	2001
	$	$
Surplus (deficit) for the year	(1,233)	1,426
Net effect of change in		
Tangible capital assets	(115)	(759)
Prepaid capital advances	(128)	(388)
Prepaid program costs	40	(69)
Other assets	65	38
	(138)	(1,178)
(Increase) decrease in net liabilities	(1,371)	248
Impact of accounting adjustment to net deficiency	32	(36)
Net liabilities—beginning of year	(21,891)	(22,103)
Net liabilities—end of year	**(23,230)**	**(21,891)**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. Accountability to a minister or directly to the Legislature, for purposes of the reporting entity, does not include those entities that are part of a province-wide program yet are locally based and have an initial accountability to a local board.

The reporting entity also includes government partnerships.

A list of organizations included in these consolidated financial statements may be found on pages 61 and 62.

Trusts administered by the government or a Crown corporation or agency are excluded from the reporting entity.

(b) Principles of Consolidation

Taxpayer-supported Crown corporations and agencies are consolidated with the Consolidated Revenue Fund using the full consolidation method. The government's interests in government partnerships are recorded on a proportional consolidation basis.

Self-supported Crown corporations and agencies and government business partnerships are consolidated with the Consolidated Revenue Fund on the modified equity basis of consolidation.

The definitions of these consolidation methods can be found on page 14.

No adjustments are made for Crown corporations and agencies whose fiscal year-ends are different from the government's fiscal year-end of March 31, unless the effect of an adjustment would be significant to the consolidated operating result.

(c) Basis of Accounting

The government's Summary Financial Statements are prepared in accordance with the generally accepted accounting principles (GAAP) for senior governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, with the following exceptions:

(i) Reporting entity—PSAB recommends that the reporting entity comprise all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, or local government council, and are owned or controlled by the government. The government currently does not include schools, universities, colleges and institutes, or health care organizations (SUCH sector) in its reporting entity. This issue is currently under review.

(ii) Prepaid capital advances—PSAB recommends that government transfers be expensed in a government's financial statements in the period that the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria are met and a reasonable estimate of the amount can be made. Transfers to schools, universities, colleges and institutes, and health care organizations that are for the acquisition of tangible capital assets are not expensed in the year they are issued; rather, they are treated as a prepaid expense and amortized over the life of the tangible capital assets acquired with the advances.

(iii) Expense basis of accounting—PSAB recommends that when a government reports expenses and tangible capital assets in its financial statements, tangible capital assets should be reported as a component of net liabilities. In addition, the Statement of Operations should provide a reconciliation of the expense-based surplus or deficit to the change in net liabilities. The government reports tangible capital assets directly on its Statement of Financial Position. The Statement of Operations is prepared on the expense basis, but is not returned to the expenditure basis of accounting to provide a reconciliation of the change in net liabilities. The Statement of Change in Net Liabilities provides a reconciliation of the change in net liabilities to the annual operating result.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

1. Significant Accounting Policies—Continued

The following table provides the impact to the province's financial statements if the accounting policies were changed to conform to current PSAB.

	In Millions					
	Assets	Liabilities	Net Equity	Revenue	Expense	Surplus
	$	$	$	$	$	$
Inclusion of SUCH sector and expensing prepaid capital advances	5,957	3,102	2,855	2,214	1,989	225
Change from expense to expenditure basis of accounting	(21,266)		(21,266)		646	(646)
Increase (decrease)	**(15,309)**	**3,102**	**(18,411)**	**2,214**	**2,635**	**(421)**

Recent amendments to the *Budget Transparency and Accountability* Act require that any exceptions to GAAP be eliminated for fiscal 2004/05.

(d) SPECIFIC ACCOUNTING POLICIES

Revenue

All revenue is recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exception is corporation income tax and receipts under the Federal Equalization Program, which are recorded on a cash basis.

Government transfers are recognized as revenues in the period during which the transfer is authorized and any eligibility criteria are met.

Tax credits/offsets are accrued on the same basis as the associated tax revenues and reduce gross taxation revenue but are not considered valuation allowances.

Expenses

The cost of all goods and services received during the year is recorded as expenses.

Interest expense is recorded net of sinking fund earnings.

Pension expense is calculated as the cost of pension benefits earned by employees during the year, interest on the pension benefits liability net of pension plan assets and amortization of the government's share of any experience gains or losses, less contributions made by employees and other employers. The estimated total cost of the government's share of the plan amendments related to past service is expensed in the year the plan is amended.

Government transfers include grants, entitlements and transfers under agreements, as defined on pages 14 and 15. Government transfers are recognized as expenses in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made. This excludes transfers that meet the criteria for a prepaid capital advance.

Acquisitions of tangible capital assets and prepaid capital advances are recorded as assets and the cost is amortized over the useful life of the relevant tangible capital asset. Tangible capital assets not related to a capitalized class of assets are expensed in the year of acquisition.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

1. Significant Accounting Policies—Continued

Restructuring exit expenses are recorded when a restructuring plan in appropriate form has been approved by the province. To qualify, the expense must not be associated with or benefit activities that will be continued by the government reporting entity. In addition, the expense must:

(i)be incremental to other expenses incurred in normal operations and incurred as a direct result of the restructuring plan; or

(ii)represent amounts to be incurred under an existing contractual obligation that will continue after the restructuring plan is completed with no economic benefit to the government; or

(iii)represent a penalty or compensation incurred to cancel an existing contractual obligation.

Assets

Assets are recorded to the extent that they represent cash and claims upon outside parties, items held for resale to outside parties, prepaid expenses, deferred charges, prepaid capital advances or tangible capital assets acquired as a result of events and transactions prior to the year–end.

Financial Assets

Temporary investments and Warehouse Program investments include short–term investments recorded at the lower of cost or market value.

Inventories for resale include property which has been purchased, or for which development costs have been incurred, that is held for ultimate resale or lease to outside parties. Inventories for resale are recorded at the lower of cost or net realizable value.

Equity in self–supported Crown corporations and agencies represents the province's investment (including long–term advances) in those self–supported Crown corporations and agencies at cost, adjusted for increases and decreases in the investees' net assets.

Loans and advances are recorded at cost less adjustment for any prolonged impairment in value. Mortgages receivable are recorded at the principal amount less valuation allowance, are secured by real estate and are repayable over periods ranging up to thirty years. Concessionary loans and mortgages are recorded at net present value at issue and related present value discounts are expensed. Valuation allowances are made when collectibility is considered doubtful.

Other investments are recorded at the lower of cost of acquisition (which may be adjusted by attributed income) or estimated current value. Valuation adjustments are made when the value of investments is impaired.

Loans for purchase of assets, recoverable from agencies are recorded at maturity value less unamortized premium/discount and sinking fund balances. Premium/discount is amortized on a constant yield basis.

Non–Financial Assets

Tangible capital assets are recorded at historical cost. Estimated cost is used to record existing tangible capital assets when actual cost is unknown. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight–line basis except for some transportation equipment which is amortized using the sinking fund method.

All significant tangible capital assets of government organizations and operations have been capitalized with the exception of certain land that is not associated with a capitalized class of asset. Non–capitalized tangible capital assets are recorded at the nominal value of $1.

Gains arising from the initial valuation and capitalization of the existing tangible capital assets are accounted for as a component of accumulated deficit.

Prepaid capital advances are provided to school districts, post–secondary educational institutions, health care organizations and other specified government organizations to fund capital asset acquisitions. The province has an on–going claim on the assets of these organizations. Prepaid capital advances are amortized over the useful life of the assets funded.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

1. Significant Accounting Policies—Continued

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year–end, including probable losses on loan guarantees issued by the province, contingent liabilities when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis, and unfunded pension liabilities.

Employee Pension Plans (Unfunded Pension Liabilities)

The province accounts for employee pension plans by recognizing a liability and an expense in the reporting period in which the employee has provided service. The amount is calculated using the accrued benefit actuarial cost method. Where plans are in a net asset position, and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan assets as nil. Changes in net liabilities/assets which arise as a result of estimation adjustments due to experience gains and losses or changes in actuarial assumptions are amortized on a straight–basis over the average remaining service period of employees active at the date of the adjustments. Past service costs from plan amendments are recognized in full in the year of the amendment.

Unfunded pension liabilities of the Members of the Legislative Assembly Superannuation Plan represent the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the account.

Public Debt

Public debt represents the direct debt obligations of the Province of British Columbia, including borrowings incurred for government operating purposes, the acquisition of capital assets, for re–lending to authorized government bodies and for borrowings in advance of future requirements under the Warehouse Program. Public debt consists of short–term promissory notes, notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount and sinking fund balances where applicable. Public debt is reported under two categories: (1) taxpayer–supported, and (2) self–supported.

(1) Taxpayer–supported debt includes direct debt used for government operating and capital purposes, and the debt of Crown corporations and agencies that requires an operating or debt servicing subsidy from the provincial government or which are fully consolidated within these financial statements.

(2) Self–supported debt includes the debt of commercial Crown corporations and agencies that fully fund their operations and debt from revenue generated through the sale of goods and/or services at commercial rates to buyers that are outside the government reporting entity. Self–supported debt includes debt of the Warehouse Program.

Debt premium/discount is amortized on a constant yield basis. Unamortized premium/discount on bonds called and refinanced is amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

When it has been determined that there are sufficient securities to satisfy scheduled interest and principal payments for a debt instrument, the sinking fund assets are set aside in a defeased trust account. The debt and the related securities used to extinguish the debt are removed from the province's Statement of Financial Position. The debt is considered extinguished for financial reporting purposes.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year–end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long–term, fixed–term monetary assets and liabilities are reported as deferred charges and amortized over the remaining terms of the related items on a straight–line basis. Non–monetary assets and liabilities are translated at historical rates of exchange.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

1. Significant Accounting Policies—Continued

Derivative Financial Instruments

The province is a party to financial instruments with off–balance sheet risk due to fluctuations in foreign currency exchange rates, interest rate fluctuations and counterparty default on financial obligations. The province does not use derivative financial instruments for speculative purposes. Off–balance sheet position data is given in the form of nominal principal amounts outstanding. Amounts paid and received under swaps are recognized and offset against the related interest expense. Gains and losses on terminated derivative contracts are deferred and amortized over the lesser of the remaining term of the contract or the related debt.

(e) CHANGE IN ACCOUNTING TREATMENT

Capital Leases for Vehicles

In 2001/02, the province changed its accounting treatment with respect to certain vehicle leases. Previously, these leases had been considered operating leases. Based on new information, it has been determined that these leases should have been recorded as capital leases, as they result in substantially all the risks and benefits of ownership of the vehicles being transferred to the province. This change, made retroactively, has the effect of increasing tangible capital assets and taxpayer–supported debt by $45 million as at April 1, 2001. There has been no restatement of the accumulated deficit or prior year's operating results.

2. Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty in these financial statements exists in the accruals for pension obligations, Canada Health and Social Transfer (CHST) and personal income tax.

The nature of the uncertainty in the accruals for pension obligations arises because actual results may differ significantly from the province's best estimates of expected results based on variables such as earnings on pension investments and life expectancy of claimants. Uncertainty related to the accrual for CHST and personal income tax arises because of the possible differences between the estimated and actual economic growth and related impact on taxes receivable.

British Columbia Hydro and Power Authority (BC Hydro), a wholly owned self–supported Crown corporation, is directly exposed to counterparty credit risk as a result of the purchase and sale of electricity and natural gas. The rapid rise of wholesale power prices and in–state supply shortages have caused significant financial hardship for a number of utilities in California. A number have accumulated large losses and defaulted on payments. As a result, BC Hydro has not recognized as revenue some amounts owed to it from sales to these utilities and has recorded provisions for uncollectible amounts, which, in management's best estimate, are sufficient to cover any remaining exposure. Due to the instability in the California market and ongoing regulatory and legal proceedings, management cannot predict the outcome and the amount ultimately collected may differ materially from management's current estimate.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

3. Cash and Temporary Investments

	In Millions	
	2002	2001
	$	$
Cash (cheques issued in excess of funds on deposit)	(319)	(191)
Temporary investments[1]	1,099	739
	780	**548**

[1]Temporary investments consist mainly of units in the British Columbia Investment Management Corporation Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value.

4. Warehouse Program Investments

	In Millions	
	2002	2001
	$	$
Temporary investments[1]	1,077	1,314
Deferred charges	3	6
Accrued interest payable	(13)	(8)
	1,067	**1,312**

[1]Temporary investments consist of corporate and bank discount notes.

5. Accounts Receivable

	In Millions	
	2002	2001
	$	$
Taxes receivable	1,546	1,622
Trade accounts receivable	1,382	1,200
Accrued interest	274	262
	3,202	3,084
Provision for doubtful accounts	(534)	(444)
	2,668	**2,640**

6. Inventories for Resale

	In Millions	
	2002	2001
	$	$
Properties	85	57
Small Business Forest Enterprise Program	148	130
Other	17	94
	250	**281**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

7. Due from Other Governments

	In Millions 2002	2001
	$	$
Government of Canada:		
Current	105	211
Long-term		1
Provincial governments:		
Current	5	2
Local governments:[1]		
Current	47	15
Long-term	1	
	158	**229**

[1] Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

8. Due from Self-supported Crown Corporations and Agencies

	In Millions 2002	2001
	$	$
British Columbia Hydro and Power Authority	332	372
British Columbia Liquor Distribution Branch		1
British Columbia Lottery Corporation	50	46
Columbia Power Corporation	2	3
	384	**422**

See page 66 for details.

9. Equity in Self-supported Crown Corporations and Agencies

	In Millions 2002			2001
	Investments $	Unremitted Earnings $	Total $	Total $
British Columbia Hydro and Power Authority		1,617	1,617	1,691
British Columbia Railway Company	258	109	367	526
Columbia Power Corporation	276	11	287	289
Insurance Corporation of British Columbia		239	239	481
Provincial Capital Commission		15	15	14
	534	**1,991**	**2,525**	**3,001**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

9. Equity in Self-supported Crown Corporations and Agencies—Continued

Change in Equity in Self-supported Crown Corporations and Agencies	In Millions 2002 Investments $	2002 Unremitted Earnings $	2002 Total $	2001 Total $
Balance—beginning of year	534	2,467	3,001	2,742
Increase in investment				24
Net earnings of self-supported Crown corporations and agencies		1,085	1,085	1,725
Contributions paid to the Consolidated Revenue Fund		(1,420)	(1,420)	(1,431)
Adjustments to contributions paid		(149)	(149)	(136)
Adjustments to unremitted earnings		8	8	20
Transfer to consolidated entity				57
Balance—end of year	**534**	**1,991**	**2,525**	**3,001**

See pages 66 and 67 for details.

10. Loans, Advances and Mortgages Receivable

	In Millions 2002 $	2001 $
Loans and Advances		
BC Student loans	204	128
Industrial Development Fund commercial loans	135	140
Land Tax Deferment loans	141	133
Construction loans to social housing projects	121	80
Capital expansion loans		35
Accountable advances	2	47
Miscellaneous	81	82
	684	645
Provision for doubtful accounts	(119)	(123)
	565	522
Mortgages Receivable		
Reconstruction Program	30	17
Miscellaneous	14	27
	44	44
Provision for doubtful accounts	(15)	(8)
	29	36
	594	**558**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

10. Loans, Advances and Mortgages Receivable—Continued

The BC Student Loan program provides loans to students for higher education. Students are required to repay these loans, through a contracted service provider, to the province over a maximum of 174 months with a floating interest rate of prime plus 2.5%. Defaulted loans are due on demand with interest at a floating rate of prime plus 2.5%. The program also administers defaulted student loans issued by financial institutions under a risk sharing agreement with the province. Defaulted risk sharing loans arise due to bankruptcy or death of the student while attending school.

The Industrial Development Fund provided loans to assist the establishment of new industry, the introduction of new technology to existing industry, or the development of a region of British Columbia. These loans incur interest at rates ranging from 0% to 10%. The Industrial Development Fund was eliminated pursuant to the repeal of the *Industrial Development Incentive Act* under the *Budget Measures Implementation Act, 2002*. No loans will be issued after March 31, 2002.

The Land Tax Deferment program allows eligible individuals to defer payment of all, or a portion of, annual property taxes due on residences. Eligible individuals are either 60 years or older, a surviving spouse or a disabled person. Simple interest is charged on the deferred taxes at a rate set semi-annually by the Ministry of Finance. This rate is generally 2.0% below the prime rate. The deferred taxes, plus any outstanding interest, must be repaid when the residence is transferred to a new owner.

Construction loans are provided by British Columbia Housing Management Commission (BCHMC), a taxpayer-supported Crown corporation, and an approved lender under the *National Housing Act*. BCHMC provides construction loans for societies that are building approved projects under social housing programs. Interest is payable at the province's weighted average borrowing rate for short-term funds, plus administration costs. Loans are repaid at substantial completion of each project from financing arranged with private lenders.

Capital expansion loans were made to taxpayer-supported Crown corporations and agencies for plant expansion. There are no loans of this nature outstanding at March 31, 2002.

Accountable advances represent funds issued for program costs, which have not yet been expended in accordance with the applicable agreements.

The Reconstruction Program provides financial assistance to homeowners to pay for repairs to homes with premature building envelope failure. The financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans and secured by registered mortgages. This program is administered by Homeowner Protection Office.

Miscellaneous mortgages receivable have terms ranging from less than 1 year to 20 years, with some loans being payable on demand. Interest rates range from 4% to 10%.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

11. Other Investments

	In Millions	
	2002	2001
	$	$
Government of Canada bonds	26	19
Provincial government bonds	33	44
Commercial loans and investments	111	111
Pooled Investment Portfolios	82	93
Columbia Basin Trust investments	88	56
Pooled and managed investment funds of Forest Renewal BC		32
Equity investment in CBS Insurance Company	23	
Miscellaneous	51	41
	414	396
Provision for doubtful accounts	(126)	(126)
	288	**270**

Government of Canada bonds have a market value of $26.2 million (par value $25.3 million), with yields ranging from 3.065% to 8.492%. Maturity dates range from April 1, 2002 to December 1, 2005.

Provincial bonds of various provinces have a market value of $33.4 million (par value $31.0 million), with yields ranging from 2.365% to 6.189%. Maturity dates range from June 24, 2002 to July 22, 2013.

Commercial loans and investments are recorded at lower of cost of acquisition adjusted by attributed income and market value. A provision in the full amount of these loans has been recorded.

Pooled investment portfolios consist of units in the British Columbia Investment Management Corporation's BC Focus Fund and Illiquid Fund. These funds' investments consist primarily of debt and equity holdings of privately held companies.

Columbia Basin Trust investments include $17 million in bankers acceptances and deposits. Deposit holdings are not marketable, but Columbia Basin Trust may, on ninety days written notice, redeem up to 10% of deposits initially made for a period of one year or longer, without cost or penalty, provided that such redemption occurs only once during a particular deposit's term. Also included is a $71 million equity investment in power project joint ventures developed in partnership with Columbia Power Corporation.

The equity investment in CBS Insurance Company is held by Canadian Blood Services and represents the province's proportional interest.

12. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	2002	2001
	$	$
British Columbia Hydro and Power Authority	6,770	6,703
British Columbia Railway Company	599	584
Columbia Power Corporation	63	20
Improvement districts	6	6
Pacific Racing Association	5	5
Post-secondary educational institutions	114	124
	7,557	7,442
Provision for doubtful accounts	(5)	(5)
	7,552	**7,437**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

13. Accounts Payable and Accrued Liabilities

	In Millions	
	2002	2001
	$	$
Trade accounts payable and other liabilities	1,595	1,449
Accrued interest on debt	779	824
Accrued employee leave entitlements	244	238
Other accrued estimated liabilities[1]	601	525
	3,219	**3,036**

[1]Includes pending litigation, provision for guaranteed debt payout and other miscellaneous accrued claims.

14. Due to Other Governments

	In Millions	
	2002	2001
	$	$
Government of Canada:		
Current	69	57
Provincial governments:		
Current	10	12
Local governments:[1]		
Current	19	9
Long-term	2	26
	100	**104**

[1]Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

15. Due to Crown Corporations, Agencies and Funds

	In Millions	
	2002	2001
	$	$
British Columbia Liquor Distribution Branch	3	
Post-secondary educational institutions	1	2
Trust funds	76	69
	80	**71**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

16. Deferred Revenue

	In Millions	
	2002	2001
	$	$
Medical Services Plan premiums	55	54
Motor vehicle licences and permits	161	160
Petroleum, natural gas and minerals, leases and fees	29	29
Water rentals and recording fees	71	82
Derivative debt instruments	16	1
Unearned lease revenue	106	95
Federal and municipal highway project revenues	59	33
Forest Stand Management Fund	14	11
Miscellaneous	128	153
	639	**618**

17. Employee Pension Plans (Unfunded Pension Liabilities)

	In Millions	
	2002	2001
	$	$
Members of the Legislative Assembly Superannuation Plan	6	13
Municipal Superannuation Plan		149
Teachers' Pension Plan		1,315
	6	**1,477**

The province contributes to defined benefit pension plans for substantially all its employees and for Members of the Legislative Assembly. The plans provide pensions based on length of service and final average earnings. They do not provide for inflation protection other than that set aside in special inflation accounts. The performance of the plans over the past two years placed them in a net asset position at March 31, 2002.

The College, Public Service, Municipal and Teachers' plans are joint trusteeship plans. In joint trusteeship plans, control of the plans and their assets are assumed by individual pension boards made up of government and plan member representatives. Provisions of these plans stipulate that the province has no formal claim to any pension plan surpluses or assets. In addition, all plans are administered by the British Columbia Pension Corporation (BCPC).

In the event that a plan deficit is determined by an actuarial valuation (performed every three years), the province is required to address it through the Joint Trusteeship Boards by adjusting contributions or other means. It is expected, therefore, that any unfunded liabilities in the future will be short-term in nature.

Both the Municipal and Teachers' plans became joint trusteeship plans in the current fiscal year. The settlement of the former plans resulted in the realization this fiscal year of past actuarial gains that existed in the former plans on the settlement date. Under the former plans, these gains were amortized into operations over a period of approximately 10 to 12 years. The effect of the settlements is a one-time credit to operations in the amount of $1,464 million.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

17. Employee Pension Plans (Unfunded Pension Liabilities)—Continued

The estimated financial position for each plan consists of the accrued benefit obligation less the pension fund assets, as follows:

	In Millions				
	Public Service Pension Plan	Municipal Superannuation Plan	Teachers' Pension Plan	College Pension Plan	Total
	$	$	$	$	$
Accrued benefit obligation	7,872	7,369	9,083	796	25,120
Pension fund assets	9,006	8,003	9,167	1,035	27,211
Accrued net asset	**(1,134)**	**(634)**	**(84)**	**(239)**	**(2,091)**

The reported net assets of the pension plans are under joint trusteeship agreements which limit the province's share to 50%. The province has no formal claim on accrued asset amounts until such time as a formal declaration is made by the Joint Trusteeship Boards to reduce or suspend employer contributions for a period of time. Therefore, the recorded value of the net assets is nil until such time that a declaration is made. Also, only 70% of the accrued benefit obligation and pension fund assets are included for the Municipal Superannuation Plan, reflecting the province's interest in the plan.

The accrued benefit obligations and pension assets shown for 2001/02 are based on extrapolations of the most recent actuarial valuations as follows: Public Service Pension Plan (March 31, 1999); Municipal Superannuation Plan (December 31, 2000); Teachers' Pension Plan (December 31, 2000); and College Pension Plan (August 31, 1997).

The Members of the Legislative Assembly Superannuation Plan (the Plan) is also administered by the BCPC. Each year, the present value of the amount required to provide a legislative member's future pension benefits is transferred from the Plan to the Public Service Pension Plan from which monthly pensions are paid. Pension benefits are based on length of service and final average earnings. The unfunded pension liability for the Plan represents the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the Plan.

Key actuarial assumptions used in the valuations include a long-term annual rate of return on pension fund assets of 7.30% for the Public Service Pension Plan, 7.25% for the Municipal Pension Plan, 7.50% for the Teachers Pension Plan, and 7.40% for the College Pension Plan, and long-term annual salary increases of 4.80% for the Public Service Pension Plan, 4.75% for the Municipal Pension Plan, 5.00% for the Teachers' Pension Plan, and 4.90% for the College Pension Plan.

The audited financial statements of each pension plan listed, along with full descriptions, benefit formulas, inflation assumptions and funding policies, are published on the British Columbia Pension Corporation web site.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

18. Taxpayer–Supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2002 Canadian Dollar Total	2001 Canadian Dollar Total
Short–term promissory notes	2002						827
	2003	898	30			928	
Notes, bonds and debentures[3]	2002						2,103
	2003	1,067	1,211			2,278	2,259
	2004	1,400			410	1,810	1,809
	2005	1,051	445		585	2,081	1,803
	2006	1,940				1,940	1,791
	2007	1,448	928		370	2,746	1,330
	2007–2012	6,981	1,555	262	833	9,631	7,954
	2012–2017	2,174	155			2,329	2,299
	2017–2022	762				762	508
	2022–2027	2,408				2,408	2,408
	2027–2032	3,335				3,335	3,121
	2032–2037						
	2037–2042	365				365	365
Total debt issued at face value		**23,829**	**4,324**	**262**	**2,198**	30,613	28,577
Sinking funds[4]						(3,525)	(3,761)
Unamortized discount						(121)	(134)
Amount held in the Consolidated Revenue Fund						(15)	(18)
Total taxpayer–supported debt						**26,952**	**24,664**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2002	6.00	
2001		7.08

[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include: $2,869 million US ($4,324 million Canadian); 22,000 million Japanese yen ($262 million Canadian); 191 million Pounds Sterling ($410 million Canadian); 600 million Swiss Francs ($585 million Canadian); 741 million Euros ($1,203 million Canadian). Effective January 1, 2002, debt originally issued in and totalling 2,499 million French Francs and 703 million Deutsche Marks was converted at established fixed exchange rates (6.55957 French Francs for 1 Euro and 1.95583 Deutsche Marks for 1 Euro) and is now reported in Euros.

[3] Notes, bonds and debentures include $25 million (2001: $105 million) in bank loans, $79 million (2001: $76 million) in capital leases and $142 million (2001: $144 million) in mortgages.

[4] Sinking fund balances include assets totalling $198 million (2001: $109 million) invested in the Matched Book Program and assets totalling $3,327 million (2001: $3,652 million) set aside for orderly repayment of debt. Sinking funds at March 31, 2002, totalling $148 million US (2001: $140 million US) act as a natural hedge of the US dollar debentures.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

18. Taxpayer–Supported Debt—Continued

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $3,328 million (2001: $3,409 million) at a weighted average interest rate of 10.13% (2001: 10.93%). These debentures mature at various dates from April 8, 2002 to November 13, 2021, with interest rates varying between 5.61% and 16.53%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, $253 million in Canada Pension Plan debentures were issued. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two–thirds of the provinces.

Balances include 5.40% debentures, due December 4, 2026, totalling $40 million (2001: $40 million). The holders have a put option which, if exercised, would result in the bond maturing on December 4, 2002. If the option is not exercised, the bond will be redeemed for $50 million (2001: $50 million) on December 4, 2026, and the coupon rate on the bond will be 7.00% for the period December 5, 2002 to December 4, 2026.

Balances include 5.45% debentures, due August 17, 2028, totalling $200 million (2001: $200 million). The holders have a put option which, if exercised, would result in the bond maturing on August 17, 2005. If the option is not exercised, the debenture will mature on August 17, 2028, and the effective rate on the bond will be 5.62% for the period August 18, 2005 to August 17, 2028.

Balances include 5.86% debentures due June 18, 2029, totalling $250 million (2001: $250 million). The holders have a put option which, if exercised, would result in the bond maturing on June 19, 2006. If the option is not exercised, the debenture will mature on June 18, 2029.

Balances include British Columbia Savings Bonds totalling $355 million (2001: $702 million) maturing at dates from October 15, 2002 to October 15, 2007, and with an effective rate of 2.90% are redeemable at par by the holder each April 15 and October 15 prior to maturity.

Redeemable by the province

Issues totalling $80 million (2001: $210 million) with effective rates ranging from 1.91% to 2.01% are redeemable at par at the province's option on dates ranging from August 5, 2003 to April 9, 2013.

Defeasances

At March 31, 2002, sufficient securities had been set aside in an irrevocable trust, as a matter of policy, to satisfy the scheduled interest and principal payment requirements of $931 million (2001: $1,114 million). The related debt is considered extinguished for financial reporting purposes.

Aggregate payments for the next five years to meet sinking fund and retirement provisions on notes, bonds and debentures are:

	In Millions Canadian Dollar
2003	1,788
2004	1,288
2005	1,778
2006	1,729
2007	2,524

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

19. Self–Supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2002 Canadian Dollar Total	2001 Canadian Dollar Total
Short–term promissory notes	2002						1,342
	2003	286	1,175			1,461	
Notes, bonds and debentures	2002						404
	2003		446			446	442
	2004	300	319			619	615
	2005	388	75	135		598	786
	2006	793				793	356
	2007	314	251			565	314
	2007–2012	767	200		150	1,117	1,849
	2012–2017	350				350	350
	2017–2022	951				951	896
	2022–2027	450	797			1,247	1,239
	2027–2032	900				900	614
	2032–2037		478			478	473
	2037–2042	50				50	50
Total debt issued at face value		**5,549**	**3,741**	**135**	**150**	9,575	9,730
Sinking funds[3]						(1,071)	(1,089)
Unamortized discount						(4)	(22)
Total self–supported debt						**8,500**	**8,619**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2002	5.79
2001	7.04

[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include: $2,370 million US ($3,741 million Canadian); 10,000 million Japanese yen ($135 million Canadian); 97 million Euros ($150 million Canadian). Effective January 1, 2002, debt originally issued in and totalling 637 million French Francs was converted at established fixed exchange rates (6.55957 French Francs for 1 Euro) and are now reported in Euros.

[3] Sinking funds at March 31, 2002, totalling $415 million US (2001: $436 million US) act as a natural hedge of the US dollar debentures and short–term promissory notes. Sinking funds are administered by the British Columbia Investment Management Corporation.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

19. Self-Supported Debt—Continued

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $397 million (2001: $341 million) at a weighted average interest rate of 10.41% (2001: 11.10%). These debentures mature at various dates from July 10, 2004 to January 8, 2022, with interest rates varying between 5.97% and14.06%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, $55 million in Canada Pension Plan debentures were issued for self-supported debt. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces.

Balances include a $200 million US (2001: $200 million US) note with an effective rate of 1.83% maturing January 15, 2004. This note was translated at the exchange rate prevailing at year-end. The bond holder or the issuer may redeem the note on any interest payment date on thirty days' notice.

Aggregate payments for the next five fiscal years to meet sinking fund and retirement provisions on notes, bonds and debentures are:

	In Millions Canadian Dollar
2003	455
2004	579
2005	561
2006	783
2007	569

20. Risk Management and Derivative Financial Instruments

The province borrows funds in both domestic and foreign capital markets, and manages its existing debt portfolio to achieve the lowest debt costs within specified risk parameters. As a result, the province is exposed to risks associated with interest rate fluctuations and foreign exchange rate fluctuations. In accordance with risk management policy guidelines set by the Risk Committee of the Ministry of Finance, the province uses a variety of derivative financial instruments to hedge exposure to these risks.

Derivatives used by the province include interest rate swaps, cross-currency swaps, forward foreign exchange contracts, forward rate agreements, and options. A derivative instrument is a financial contract with a financial institution or counterparty which is applied to effect a hedge on interest rate or foreign exchange exposure contained in the underlying provincial debt instrument. A derivative derives value from the impact of market changes on the underlying hedged debt instrument. All derivative instruments entered into by the province are recorded off-balance sheet, which is consistent with the Canadian Institute of Chartered Accountants' accounting guidelines for non-speculative hedge instruments.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

20. Risk Management and Derivative Financial Instruments—Continued

The province also engages in commodity derivative hedging on behalf of the British Columbia Ferry Corporation. The objective of commodity derivative hedging is to reduce the financial risks associated with price volatility in the commodity market. As at March 31, 2002, the remaining notional amounts under commodity contracts totalled 255,000 barrels of oil.

The following tables present maturity schedules of the province's derivatives by type (excluding commodity derivatives), outstanding at March 31, 2002, based on the notional amounts of the contracts.

Taxpayer-supported Debt

	In Millions			
Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Total
2003	175	515	30	720
2004	409	6		415
2005	1,031	95		1,126
2006		484		484
2007	1,668	1,428		3,096
6–10 years	2,761	2,101		4,862
Over 10 years	218	969		1,187
Total	**6,262**	**5,598**	**30**	**11,890**

Self-supported Debt

	In Millions			
Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Total
2003		1,265	10	1,275
2004		150		150
2005	279	75		354
2006		698		698
2007	251	551		802
6–10 years	350	350		700
Over 10 years		400		400
Total	**880**	**3,489**	**10**	**4,379**

Interest rate risk

Interest rate risk is the risk that the province's debt servicing costs will fluctuate due to changes in interest rates. The province uses derivative contracts to manage interest rate risk by exchanging a series of interest payments, and assuming either a fixed or floating rate liability to a counterparty, based on the notional principal amount. Derivatives allow the province to alter the proportion of its debt held in fixed and floating rate form to take advantage of changes in interest rates.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

20. Risk Management and Derivative Financial Instruments—Continued

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, allow floating rate debt exposure up to 45.00% of debt. At March 31, 2002, floating rate debt exposure was 36.30% (2001: 36.60%) of debt.

Under current policy guidelines for British Columbia Hydro and Power Authority (BC Hydro), the maximum floating rate debt exposure is 35.00% of debt. At March 31, 2002, floating rate debt exposure for BC Hydro was 25.6% (2001: 19.00%) of debt.

A 1.00% increase in interest rates would result in an increase in the debt servicing expense of $87 million for taxpayer-supported debt and $34 million for self-supported debt.

Foreign exchange risk

Foreign exchange risk is the risk that the province's debt servicing costs and principal payments will fluctuate due to changes in foreign exchange rates. The province uses derivative contracts to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows. Within specified limits set by policy, the province and provincial corporations may assume only unhedged exposure to US dollars and Japanese yen.

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, allow unhedged foreign debt exposure up to 10.00% of debt. At March 31, 2002, unhedged foreign debt exposure, in US dollars and Japanese yen, was 6.61% (2001: 7.52%) of debt.

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 44.00% of debt. At March 31, 2002, 33.20% (2001: 38.60%) of debt was in the form of unhedged foreign debt in US dollars.

A one cent decrease in the Canadian dollar versus the US dollar would result in an increase in the debt servicing expense of $17 million for taxpayer-supported debt and $32 million for self-supported debt. A decrease in the value of the Canadian dollar versus one Japanese yen would result in an increase to debt servicing expenses of $1 million for taxpayer-supported debt.

Credit risk

Credit risk is the risk that the province will incur financial loss due to a counterparty defaulting on its financial obligation to the province. In accordance with the government's policy guidelines, the province reduces its credit risk by dealing with only highly rated counterparties. The province only enters into derivative transactions with counterparties that have a rating from Moody's Investors Service and Standard & Poor's of at least AA–/Aa3 or A+/A1 in the case of Canadian Schedule A banks. The province also establishes limits on individual counterparty credit exposures and monitors these exposures on a regular basis.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

21. Net Liabilities

The Statement of Changes in Net Liabilities (see page 29) shows the net impact of applying the expenditure basis of accounting. The net liabilities calculation uses the expenditure, rather than the expense, basis of accounting. Under the expenditure basis of accounting, prepaid capital advances, tangible capital assets, prepaid program costs and other assets are recorded as expenditures when calculating the current year surplus or deficit. Under the expense basis of accounting, these items are recorded on the Statement of Financial Position as assets and amortized over an applicable period of time.

22. Tangible Capital Assets

	In Millions	
	2002	2001
	Net Book Value $	Net Book Value $
Land and Land Improvements	757	720
Buildings	1,146	1,128
Highway infrastructure	6,185	6,134
Ferries and related infrastructure	580	597
Transportation equipment	2,084	1,932
Computer hardware and software	277	279
Other	177	301
	11,206	**11,091**

See Statement of Tangible Capital Assets on page 68.

The estimated useful lives of the more common tangible capital assets are: buildings (10–50 years); highway infrastructure (15–40 years); ferries and related infrastructure (5–40 years); transportation equipment (5–40 years); computer hardware and software (3–5 years); and other (including vehicles, specialized equipment, and furniture and equipment) (5–20 years). Land improvements are amortized over 30 years (recreation areas) or 40 years (dams and water management systems). Tenant improvements (included in buildings) are amortized over 5 years or the length of the relevant lease term.

Included in tangible capital assets of British Columbia Transit are capital assets under lease to Greater Vancouver Transportation Authority (GVTA). These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to GVTA for their use under the *Greater Vancouver Transportation Act* and an Order in Council enacted thereunder, and represent one of the province's contributions toward public transportation in the Greater Vancouver Regional District. The proposed lease arrangements with GVTA are for one dollar per year under an initial fifteen-year term with additional five-year renewal periods upon the agreement of British Columbia Transit and GVTA. The net book value of these assets is $977 million (2001: $993 million).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

23. Prepaid Capital Advances

	In Millions	
	2002	2001
	$	$
Health facilities	2,835	2,666
Post-secondary educational institutions	2,295	2,218
Schools	6,209	5,926
	11,339	10,810
Accumulated amortization	(4,306)	(3,905)
	7,033	**6,905**

24. Prepaid Program Costs

	In Millions	
	2002	2001
	$	$
Prepaid program costs[1]	**125**	**165**

[1]Includes inventories of operating material held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year. Also includes inventories of supplies and other not for resale items held by taxpayer-supported Crown corporations and agencies and charged to expenses when consumed in the normal course of operations.

25. Other Assets

	In Millions	
	2002	2001
	$	$
Deferred debt instrument costs	111	146
Deferred treaty costs	26	28
Other deferred costs	19	47
	156	**221**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

26. Accumulated Surplus (Deficit)

	In Millions	
	2002	2001
	$	$
Accumulated surplus (deficit)—beginning of year[1]	(3,509)	(4,970)
Adjustments made to accumulated surplus (deficit) due to changes in accounting treatment[2]		
Capitalization of land improvements[3]		92
Federal personal income tax adjustment[4]		(15)
Miscellaneous adjustments[5]	2	(7)
Canadian Blood Services adjustments[6]	20	(35)
Include the British Columbia Racing Commission in the reporting entity[7]	4	
Adjustment to British Columbia Railway Company's (BC Rail) unremitted earnings[8]	6	
Accumulated surplus (deficit)—beginning of year as restated[1,2]	(3,477)	(4,935)
Surplus(deficit) for the year	(1,233)	1,426
Accumulated surplus (deficit)—end of year	**(4,710)**	**(3,509)**

[1]Accumulated surplus (deficit) has been restated to apply changes in accounting treatment and correction of errors. The total impact of these changes has the effect of increasing the 2000/01 opening accumulated deficit by $5 million (from $4,965 million to $4,970 million).

[2]Accumulated surplus (deficit) has also been restated to apply additional changes in accounting treatment and correction of errors. The total impact of these changes has the effect of decreasing the 2000/01 opening accumulated deficit by $35 million (from $4,970 million to $4,935 million) and decreasing the surplus for the year by $72 million (from $1,498 million to $1,426 million).

[3]Land improvements were capitalized in 2001/02 as part of the phased-in approach to the capitalization of tangible capital assets. This change has the effect of increasing 2000/01 tangible capital assets by $90 million, increasing 2000/01 deferred revenue by $2 million and decreasing the 2000/01 surplus by $4 million.

[4]This adjustment is to correct an error by Canada Customs and Revenue Agency in the calculation of personal income tax collections on behalf of the province which resulted in an overpayment to the province in previous years. This adjustment has the effect of decreasing taxes receivable by $67 million, and decreasing the 2000/01 surplus by $52 million.

[5]Miscellaneous adjustments consist of a correction of an error that decreases tangible capital assets by $6 million, decreases various other assets by $5 million and decreases liabilities by $4 million. These adjustments have no impact on the 2000/01 surplus. In 2001/02, Provincial Capital Commission recorded an adjustment for land received as a donation. This adjustment has the effect of increasing Equity in Government Business Enterprises by $2 million.

[6]The adjustment for 2000/01 represents a correction to the procedure used to consolidate Canadian Blood Services. This adjustment increased trade receivables by $1 million, increased trade payables by $14 million, increased deferred revenue by $38 million and decreased the 2000/01 surplus by $16 million. The 2001/02 adjustment represents the province's proportional interest in an equity adjustment recorded by Canadian Blood Services related to its investment in CBS Insurance Company.

[7]In 2001/02, an adjustment was required to include the British Columbia Racing Commission in the reporting entity.

[8]In 2001/02, an adjustment was required to record the earnings of BC Rail for the period January 1 to March 31, 2001, which had not previously been recorded. This adjustment results from a change made this year to use the April 1 to March 31 earnings of BC Rail when preparing the Summary Financial Statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

27. Contingencies and Commitments

(a) GUARANTEED DEBT

Guaranteed debt as at March 31, 2002, totalled $307 million (2001: $447 million). See Statement of Guaranteed Debt on page 69 for details.

(b) CONTINGENT LIABILITIES

(i) Litigation and Other Claims

The province is a defendant in legal actions and is involved in matters such as expropriation compensation disputes and tax assessment appeals. These matters may give rise to future liabilities.

These potential liabilities are accrued when it is likely that a liability exists and the amount of the liability can be reasonably estimated on an individual or portfolio basis (see Note 13—Other accrued estimated liabilities).

The province has contingent liabilities in respect of the following summary of matters where the estimated or known claim is or exceeds $100,000 and is net of accrued amounts:

	In Millions	
	2002	2001
	$	$
Negligence and miscellaneous	1,025	62
Contract disputes	196	285
Damages to persons or property	130	77
Expropriation disputes	91	79
Timber harvesting rights disputes	31	37
Property access disputes	13	25
Motor vehicle accidents	10	12
Tax disputes	7	10
	1,503	**587**

On March 28, 1998, the federal government announced the establishment of a $1.1 billion fund to compensate Hepatitis C victims who were infected as a result of blood transfusions between 1986 and 1990. The value of the settlement includes payments of $1.1 billion plus a contingent liability of $18 million for the Red Cross and interest accrued on these balances as of April 1, 1998. The federal government will contribute $800 million and the provincial and territorial governments will contribute $300 million. A liability has been accrued based on the estimated costs of future payments for claims. The outcome of claims may exceed the accrued amount but this additional exposure cannot be determined with certainty.

(ii) Other Contingent Liabilities

The province also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the guaranteed debt note above.

The province is responsible for the environmental clean up of numerous contaminated sites in the province. Based on preliminary environmental audits of some sites, a liability has been recorded based upon the minimum estimated clean up costs, where an estimate has been provided. Maximum estimated cleanup costs for sites under evaluation could increase the liability by $90 million at March 31, 2002. Many other sites remain to be evaluated; this future liability is not determinable.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

27. Contingencies and Commitments—Continued

The Insurance Corporation of British Columbia (the Corporation) has settled some claims which require the Corporation to provide claimants with periodic payments, usually for a lifetime. The Corporation has purchased annuities from approved life insurance companies to make these payments. The list of approved insurance companies is determined by ongoing analysis of total assets, credit rating reports, and past service history. The gross amounts of these settlements at December 31, 2001, was approximately $537 million (December 31, 2000: $498 million). In the event a life insurance company fails in this obligation, the Corporation remains responsible to continue the payments.

BC Transportation Financing Authority has contingent liabilities of $25.8 million remaining after deducting the estimated settlement expense currently accrued from gross claims outstanding for capital projects.

Powerex, a wholly-owned subsidiary of BC Hydro and Power Authority, has been named as a defendant in a number of lawsuits regarding alleged market manipulation of energy prices in the California wholesale markets. Estimates of claims against all of the market participants arising from alleged market manipulation range from hundreds of millions of US dollars to several billion US dollars. Several investigations and regulatory proceedings at the state and federal levels are also looking into the causes of the high wholesale electricity prices in the Western United States. Management cannot predict the outcome of the various claims against Powerex. Powerex believes the terms of its sales were just and reasonable.

The federal government, through the Canada Customs and Revenue Agency, has determined that overpayments of mutual fund tax revenues have been made to British Columbia, estimated at $120.6 million. The province disputes the liability and legal reviews are continuing (see Note 34).

(iii) Aboriginal Land Claims

The absence of treaties in most of British Columbia has resulted in a number of outstanding aboriginal land claims across the province. The provincial position is that these claims should be resolved through negotiation, not litigation. Most First Nations agree that the negotiation of claims is the better way to resolve this issue.

A formal process for treaty negotiations in British Columbia has been agreed to amongst the province, Canada and the First Nations Summit. Negotiations commenced in 1994. The province anticipates that these negotiations will result in modern–day treaties defining the boundaries and nature of First Nations treaty settlement lands and rights and ensure a more stable environment for resource development in British Columbia.

The British Columbia Treaty Commission facilitates treaty negotiations under a six–stage negotiation process. As at March 31, 2002, there were 41 treaty tables, including two transboundary tables, in the process, representing two–thirds of the aboriginal people in British Columbia. These 41 treaty tables are broken down as follows:

- three tables in the Readiness stage (Stage 2)
- three tables in the Framework Agreement stage (Stage 3)
- thirty-four tables in the Agreement-in-Principle stage (Stage 4)
- one table (Sechelt) in the Final Negotiation stage (Stage 5).

When final treaty agreements are ratified, the provincial cost of treaties is recorded in the Public Accounts. Costs are amortized over the same period as the period of capital transfers established in final agreements. The provincial cost of the Nisga'a treaty has been recorded and will be amortized over 15 years.

If a final treaty is negotiated on the basis of the Sechelt Agreement in Principle, Sechelt Treaty Land would amount to approximately 2,000 hectares. The province would transfer $4.2 million in capital transfers over a number of years.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

27. Contingencies and Commitments—Continued

Eighty per cent of funding for First Nations negotiation costs is in the form of loans from Canada and is repayable from treaty settlements. Under a 1993 Memorandum of Understanding, the province committed to reimburse Canada 50% of any negotiation support loans that default, along with 50% of the interest accrued. The earliest date at which the loans are expected to become due is 2006 and the amount of any provincial liability is not determinable at this time.

The province is conducting a referendum on treaty principles this spring. British Columbia's position on negotiation topics and mandates will be reviewed later this year in light of the referendum results.

Since the Supreme Court of Canada decision on December 11, 1997 of Delgamuukw v. Her Majesty the Queen in Right of British Columbia and Attorney General of Canada there has been an increase in cases involving aboriginal rights and titles.

The Delgamuukw case itself set out a framework for analyzing aboriginal title but did not find that the Gitxsan and Wet'suwet'en First Nations held aboriginal title. Instead, the court referred the matter back for a new trial. At this time, the Gitxsan and Wet'suwet'en have taken no steps to initiate that action.

Several First Nations have commenced litigation claiming aboriginal title over their asserted Traditional Territories and/or challenging provincial approvals regarding resource allocation and extraction on those lands. These challenges are often commenced on the basis that the provincial Crown has not consulted adequately with respect to aboriginal rights or title.

Of particular significance with respect to consultation are two recent decisions of the BC Court of Appeal: Taku River Tlingit First Nation v. Ringstad et al. and Haida Nation v. BC and Weyerhaeuser. Both cases have held that the Crown has a constitutional obligation (rather than an administrative duty) to consult with First Nations in advance of proven aboriginal rights or title. Appeals are being considered in these cases.

Also of note are court decisions in which it has been determined that the province is required to pay the Plaintiff First Nations' legal costs of the litigation (in advance and regardless of the outcome of the litigation). The province is in the process of appealing these cases.

There are also several cases which challenge the province's exclusive ownership of roads that traverse reserves and seek compensation for the use of those roads. The result of these actions is not determinable at this time.

(c) COMMITMENTS

The government has ongoing operational and capital commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. In addition, the government normally contracts out construction or maintenance of its roads, bridges and buildings. All these ongoing operational and capital commitments are detailed in the Estimates published yearly and are not repeated in this note. Any significant non-operating commitments (less than five years duration costing more than $50 million) and their completion costs are detailed in this note.

The province has committed to a three-year restructuring plan. In each year, the plan and its associated costs are determined, included in the Estimates, and recorded in the financial statements.

The Insurance Corporation of British Columbia has $57.2 million in outstanding commitments related to the Central City development, whose estimated total development cost is $209.4 million.

At the end of each year, the BC Transportation Financing Authority has a number of general commitments outstanding for ongoing infrastructure projects. The approved capital program for 2002/03 is $254.0 million.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

28. Revenue

	In Millions	
	2002	2001
Taxation revenue includes	$	$
Personal income	5,366	5,963
Corporation income	1,522	1,054
Social service	3,523	3,605
Property	1,461	1,432
Other	2,189	2,209
	14,061	**14,263**

See notes at end of the Schedule of Net Revenue by Source on page 86 for additional information on taxation revenue.

	In Millions	
	2002	2001
Investment earnings include	$	$
Warehouse Program	90	112
Other	728	863
	818	**975**

29. Expense

	In Millions	
	2002	2001
Interest expense by function	$	$
Health	154	157
Education	458	460
Transportation	108	90
Interest	1,670	1,873
	2,390	**2,580**

	In Millions	
	2002	2001
Total expense by group account classification	$	$
Government transfers	19,173	17,491
Salaries and benefits	2,726	2,436
Operating costs	2,670	2,800
Amortization	556	536
Interest	2,390	2,580
Other	657	527
	28,172	**26,370**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

30. Valuation Allowances

	In Millions 2002	2001
	$	$
Accounts receivable	26	23
Inventories for resale	25	
Loans, advances and mortgages receivable	191	5
Investments	7	
Other assets	2	
Accounts payable and accrued liabilities	(44)	
Taxpayer–supported debt	(173)	
Tangible capital assets	171	24
	205	**52**

These amounts are included in Other in expense by group account classification in Note 29 and represent the writedown of assets and liabilities in the above Statement of Financial Position categories.

31. Comparison to Estimates

The Estimates numbers on the Statement of Operations are based on Schedule 1 of the 2001/02 Estimates (page 288), with certain adjustments to provide a proper comparison of Estimates to 2002 Actuals.

The following table shows the adjustments to conform to 2002 Actuals:

	Original Estimates 2001/02[1]	Expense Allocation[2]	Recovery Revenue Allocation[3]	Restated Estimates 2001/02
	In Millions			
	$	$	$	$
Taxation	13,280			13,280
Natural resources	3,961			3,961
Fees and licences	1,952		253	2,205
Investment earnings	119		690	809
Miscellaneous	830		85	915
Net earnings of self–supported Crown corporations and agencies	1,608			1,608
Contributions from the federal government	2,908		207	3,115
Recoveries	1,235		(1,235)	
	25,893	0	0	25,893

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

31. Comparison to Estimates—Continued

	In Millions			
	Original Estimates 2001/02[1]	Expense Allocation[2]	Recovery Revenue Allocation[3]	Restated Estimates 2001/02
	$	$	$	$
Health	9,740	12		9,752
Social services	3,523	30		3,553
Education	6,866	1		6,867
Protection of persons and property	1,366	(77)		1,289
Transportation	1,505			1,505
Natural resources and economic development	1,770	(21)		1,749
Other	1,263	(11)		1,252
General government	392	66		458
Interest	1,806			1,806
Pension liability adjustment	(58)	58		
	28,173	58	0	28,231
Surplus (deficit) for the year before unusual items	(2,280)	(58)	0	(2,338)
Forecast allowance	(500)			(500)
Gain (loss) on pension settlement	1,280	58		1,338
	(1,500)	**0**	**0**	**(1,500)**

[1]Per Schedule I of the 2001/02 Estimates.
[2]Per Schedule H of the 2002/03 Estimates and to correct function classification.
[3]Recoveries have been reallocated to specific revenue sources in accordance with their nature.

32. Trusts Under Administration

	In Millions	
	2002	2001
	$	$
Public Trustee and Official Administrators —administered by government officials	579	607
Supreme, Provincial and County Court (Suitors' Funds) —administered by the Courts	19	26
Other trust funds —administered by various government officials	35	54
	633	**687**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

33. Workers' Compensation Board of British Columbia (WCB)

WCB administers the *Workers' Compensation Act*. Its main functions are promotion of occupational health and safety, compensation for occupational injury, death or disease, and rehabilitation of injured workers. WCB collects funds necessary for its operations from employers covered under the Act, and operates similar to a trust. It is excluded from the government reporting entity. The audited financial statements of WCB at December 31, reflect the following financial information:

	In Millions	
	2001	2000
	$	$
Assets	8,467	8,264
Liabilities	8,043	7,553
Net Equity	**424**	**711**

	In Millions	
	2001	2000
	$	$
Revenue	1,495	1,651
Expense	1,782	1,576
Surplus (deficit)	**(287)**	**75**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

34. Significant Events

Joint Trusteeship Agreements for Pension Plans

On April 5, 2001, joint trusteeship agreements were entered into for both the Municipal Superannuation Plan and the Teachers' Pension Plan, resulting in the control of the plans and their assets being assumed by newly constituted boards made up of government and plan member representatives. Under these new agreements, the government has no formal claim on pension plan surpluses and is liable for only 50% of any unfunded liabilities.

The settlement of these plans has resulted in the early realization this fiscal year of past actuarial gains that existed in the plans. In the past, these gains would be amortized over a period of approximately 10–12 years. The effect of the settlement is a one–time credit to operations of $1,464 million.

Federal Government Overpayment of Mutual Fund Tax Revenues to Certain Provinces

Canada Customs and Revenue Agency (CCRA) is responsible for administering the *Provincial Income Tax Act* on behalf of British Columbia through the federal/provincial Tax Collection Agreement. Mutual fund trusts pay federal and provincial income taxes on capital gains that are refunded once the individual investors in the fund realize the gains and pay the tax themselves. Due to an error made by the CCRA, provinces were not charged for their portion of these refunds. Based on federal statements, it appears that this problem may be corrected for the 2000 and subsequent taxation years.

The federal Auditor General completed reports on May 31, 2002, that confirmed the errors for the period from 1997 to 1999, and provided only an accounting report on the overpayments in respect of the 1993 to 1996 period. The CCRA estimate of amounts respecting the 1993 to 1999 period for assessed mutual fund trust provincial capital gains refunds is $121 million. The federal Auditor General and provincial comptrollers continue to review the assessments and processing for these years.

British Columbia accounts for its personal income tax revenue on an accrual basis, with the result that recorded revenue is based on what is earned in a fiscal year, regardless of the cash transfers made. Adjustments are made on a going–forward basis as final federal assessment information becomes available. The government estimates a reduction of $58 million for tax year 2000, due to the provincial share of mutual fund refunds. For the 2001 and 2002 tax years, the government has estimated the provincial share of mutual fund refunds at $35 million for each year. The effect of this CCRA error on an accrual basis and adjusted for the provincial fiscal year is a reduction to personal income tax revenue of $52 million in fiscal 2000/01, and $35 million for fiscal 2001/02.

The amount and resolution of the errors relating to 1999 and prior years are under legal review. The government of British Columbia is of the opinion that the financial liability for these corrections is the responsibility of the federal government and not the province. On the basis that this overpayment is the subject of legal action, the amount is noted as a contingent liability at March 31, 2002, and is not included in these statements.

Sale of Skeena Cellulose Inc.

The province is a majority shareholder of Skeena Cellulose Inc. through 552513 British Columbia Ltd., a taxpayer–supported Crown corporation. In September 2001, Skeena Cellulose Inc. was granted protection from its creditors under the *Companies Creditors Arrangement Act*. On April 2, 2002, the creditors of Skeena Cellulose Inc. approved a restructuring plan negotiated by the province which was approved by the Supreme Court of British Columbia on April 4, 2002. This plan resulted in the sale of Skeena Cellulose Inc. and its subsidiaries (excepting Buffalo Head Forest Products Ltd.) to NWBC Timber and Pulp Ltd. for a payment of $6 million to the secured creditors and a payment of $2 million to unsecured creditors. The closing date of the sale was April 26, 2002. The impact of this sale on the Summary Financial Statements' 2001/02 operating result was a $223 million increase in the deficit.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2002—Continued

35. Restructuring Exit Expense

Reported restructuring exit expenses of $224 million do not include an additional $205 million for restructuring exit expenses of government organizations that were consolidated using the modified equity basis. This consists of $165 million for British Columbia Railway Company and $40 million for the Insurance Corporation of British Columbia (ICBC). ICBC's amount does not include an additional $41 million for which it was fully reimbursed by the Consolidated Revenue Fund. The $41 million is included as part of the $224 million.

	In Millions	
	2002	2001
	$	$
Social services	10	
Education	46	
Protection of persons and property	16	
Transportation	7	
Natural resources	41	
Other	104	
	224	**0**

	In Millions	
	2002	2001
Restructuring exit expense by group account classification:	$	$
Government transfers	42	
Salaries and benefits	95	
Operating costs	22	
Other	65	
	224	**0**

36. Comparatives

Certain of the comparative figures for the previous year have been restated to conform with the current year's presentation. These restatements have had no effect on the operating result as previously reported except as specifically noted.

Summary Financial Statements Reporting Entity for the Fiscal Year Ended March 31, 2002

TAXPAYER-SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

Consolidated Revenue Fund

Health Sector

B.C. Health Care Risk Management Society
British Columbia Health Research Foundation
Canadian Blood Services
Forensic Psychiatric Services Commission

Education Sector

Industry Training and Apprenticeship Commission
Private Post-Secondary Education Commission

Natural Resources and Economic Development Sector

552513 British Columbia Ltd
577315 British Columbia Ltd[1]
580440 B.C. Ltd[1]
632121 British Columbia Ltd[2]
634349 British Columbia Ltd[2]
BC Immigrant Investment Fund Ltd
B.C. Games Society
B.C. Pavilion Corporation
B.C. Society for the Distribution of Gaming Revenue to Charities[1]
British Columbia Enterprise Corporation
British Columbia Racing Commission[3]
British Columbia Securities Commission
British Columbia Trade Development Corporation
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Discovery Enterprises Inc
Duke Point Development Limited
Fisheries Renewal BC[1]
Forest Renewal BC[1]
Homeowner Protection Office
Land and Water British Columbia Inc[4]
Okanagan Valley Tree Fruit Authority
Oil and Gas Commission
Pacific National Exhibition
Science Council of British Columbia
Tourism British Columbia
Vancouver Trade and Convention Centre Authority

Transportation Sector

BC Transportation Financing Authority
British Columbia Ferry Corporation
British Columbia Transit
Rapid Transit Project 2000 Ltd
Victoria Line Ltd

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2002—Continued

Taxpayer-supported Crown Corporations and Agencies (Government Organizations) Recorded on a Consolidated Basis—continued

Social Services Sector

B.C. Community Financial Services Corporation
British Columbia Housing Management Commission
Provincial Rental Housing Corporation

Other Sector

B.C. Festival of the Arts Society
British Columbia Arts Council
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Heritage Trust
First Peoples' Heritage, Language and Culture Council
Legal Services Society
Organized Crime Agency of British Columbia Society

Self-Supported Crown Corporations and Agencies (Government Enterprises) Recorded on a Modified Equity Basis

BCIF Management Ltd
British Columbia Hydro and Power Authority
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Railway Company
Columbia Power Corporation
Insurance Corporation of British Columbia
Provincial Capital Commission

[1] These organizations ceased operations during the fiscal year.
[2] These organizations began operations during the fiscal year.
[3] This entity was already operating in prior years but has been consolidated as a government organization in this fiscal year.
[4] This company changed names during the current year. It was formerly known as British Columbia Assets and Land Corporation.

Summary Financial Statements
Statement of Financial Position by Sector
(as identified on pages 61 and 62)
as at March 31, 2002

In Millions

	CRF[1]	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments[2]	Total
Financial Assets	$	$	$	$	$	$	$	$	$
Cash and temporary investments	538	22	6	133	29	11	46	(5)	780
Warehouse Program investments	1,067								1,067
Accounts receivable	2,700	3	1	22	16	9	18	(101)	2,668
Inventories for resale	180			22	15		33		250
Due from the Province of British Columbia		7		13	28	3	34	(85)	
Due from other governments	94	1			50	11	2		158
Due from self-supported Crown corporations and agencies	384								384
Equity in self-supported Crown corporations and agencies	806							1,719	2,525
Loans, advances and mortgages receivable	422			41	1	130			594
Other investments	150	23		90	9	16			288
Loans for purchase of assets, recoverable from agencies	10,968							(3,416)	7,552
	17,309	56	7	321	148	180	133	(1,888)	16,266

Summary Financial Statements
Statement of Financial Position by Sector
(as identified on pages 61 and 62)
as at March 31, 2002—Continued

In Millions

	CRF[1]	Health	Education	Natural Resources	Transpor-tation	Social Services	Other	Adjust-ments[2]	Total
Liabilities	$	$	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	2,970	18	4	38	186	41	86	(124)	3,219
Due to other governments	83			6	10		1		100
Due to Crown corporations, agencies and funds	83			1				(4)	80
Due to the Province of British Columbia		6		21	30			(57)	
Deferred revenue	416	37	2	15	2,052	104	2	(1,989)	639
Unfunded pension liabilities	6								6
Taxpayer-supported debt	26,746	3		69	2,659	299	596	(3,420)	26,952
Self-supported debt	8,500								8,500
	38,804	64	6	150	4,937	444	685	(5,594)	39,496
Net liabilities	(21,495)	(8)	1	171	(4,789)	(264)	(552)	3,706	(23,230)
Non-Financial Assets									
Tangible capital assets	775	27	1	169	9,026	380	828		11,206
Prepaid capital advances	9,038							(2,005)	7,033
Prepaid program costs	63	13		9	29	10	1		125
Other assets	137				19				156
	10,013	40	1	178	9,074	390	829	(2,005)	18,520
Accumulated surplus (deficit)	**(11,482)**	**32**	**2**	**349**	**4,285**	**126**	**277**	**1,701**	**(4,710)**

[1]Consolidated Revenue Fund. This column includes amounts that may be applicable to other sectors but have not been allocated.

[2]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

Summary Financial Statements
Statement of Operations by Sector
(as identified on pages 61 and 62)
for the Fiscal Year Ended March 31, 2002

In Millions

	CRF[1]	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments[2]	Total
Revenue	$	$	$	$	$	$	$	$	$
Taxation	13,652			38	273		62	36	14,061
Natural resources	3,108			144				11	3,263
Fees and licences	1,589		1	49	382			215	2,236
Investment earnings	61	1		29	1	7	1	718	818
Miscellaneous	260	101	1	175	81	38	123	256	1,035
Contributions from the provincial government/self-supported Crown corporations and agencies	1,437	80	83	324	131	141	481	(1,592)	1,085
Contributions from the federal government	2,855			7	23	82	7	227	3,201
Total revenue	22,962	182	85	766	891	268	674	(129)	25,699
Expense									
Government transfers	19,389		7	89	18	150	12	(492)	19,173
Salaries and benefits	2,109	55	8	100	309	22	135	(12)	2,726
Operating costs	2,230	101	4	412	207	55	362	(701)	2,670
Amortization	145	3		14	341	6	47		556
Interest	1,955			12	124	14	40	245	2,390
Other	1,392	23	67	205	85	15	2	(1,132)	657
Recoveries	(2,468)							2,468	
Operating expense	24,752	182	86	832	1,084	262	598	376	28,172
Surplus (deficit) for the year before unusual items	(1,790)	0	(1)	(66)	(193)	6	76	(505)	(2,473)
Liquidation dividends	256							(256)	
Gain (loss) on pension settlement	1,464								1,464
Restructuring exit expense	(161)			(39)	(7)		(17)		(224)
Surplus (deficit) for the year 2001/02	**(231)**	**0**	**(1)**	**(105)**	**(200)**	**6**	**59**	**(761)**	**(1,233)**
Surplus (deficit) for the year 2000/01	**1,496**	**0**	**1**	**(39)**	**(185)**	**3**	**47**	**103**	**1,426**

[1]Consolidated Revenue Fund. This column includes amounts that may be applicable to other sectors but have not been allocated.

[2]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

Summary Financial Statements
Statement of Self–Supported Crown Corporations and Agencies
Summary of Financial Position
as at March 31, 2002

In Millions

	Utility	Insurance	Liquor	Transportation	Finance	Natural Resources	2002 Total	2001 Total
Assets	$	$	$	$	$	$	$	$
Cash and temporary investments	19	5,339	5	17	81	5	5,466	6,160
Accounts receivable	413	122	7	64	46		652	615
Inventories	89		63	167	5		324	172
Long–term investments	238	196					434	530
Tangible capital assets	9,731	125	47	891	22	14	10,830	10,760
Other assets	821	39	3	94	6		963	1,150
	11,311	**5,821**	**125**	**1,233**	**160**	**19**	**18,669**	**19,387**
Liabilities								
Accounts payable and accrued liabilities	1,014	4,330	112	220	110		5,786	6,091
Deferred revenue	1,031	1,252				4	2,287	2,282
Due to the Province of British Columbia	334				50		384	422
Long–term debt due to the Province of British Columbia	6,833			599			7,432	7,317
Other long–term debt	195		13	47			255	274
	9,407	5,582	125	866	160	4	16,144	16,386
Equity								
Investment by the Consolidated Revenue Fund	276			258			534	534
Unremitted earnings—end of year	1,628	239		109		15	1,991	2,467
	1,904	239		367		15	2,525	3,001
Total liabilities and equity	**11,311**	**5,821**	**125**	**1,233**	**160**	**19**	**18,669**	**19,387**

Summary Financial Statements
Statement of Self–Supported Crown Corporations and Agencies
Summary of Results of Operations and Statement of Equity
for the Fiscal Year Ended March 31, 2002

In Millions

	Utility[1]	Insurance[2]	Liquor[3]	Transportation[4]	Finance[5]	Natural Resources[6]	2002 Total	2001 Total
	$	$	$	$	$	$	$	$
Revenue	6,324	2,971	1,798	440	1,613	3	13,149	14,277
Expense	6,066	3,213	1,161	606	1,015	3	12,064	12,552
Net earnings of self–supported Crown corporations and agencies	258	(242)	637	(166)	598		1,085	1,725
Contributions paid to the Consolidated Revenue Fund	(334)		(637)		(449)		(1,420)	(1,431)
Adjustments to contributions[7]					(149)		(149)	(136)
Increase (decrease) in unremitted earnings in self–supported Crown corporations and agencies	(76)	(242)		(166)			(484)	158
Unremitted earnings—beginning of year	1,704	481		268		14	2,467	2,232
Adjustment to unremitted earnings[8]				6		2	8	20
Transfer to consolidated entity[9]								57
Unremitted earnings—end of year	1,628	239		108		16	1,991	2,467
Investment by the Consolidated Revenue Fund	276			258			534	534
Equity in self–supported Crown corporations and agencies for the year	**1,904**	**239**		**366**		**16**	**2,525**	**3,001**

[1]Utility—British Columbia Hydro and Power Authority and Columbia Power Corporation.
[2]Insurance—Insurance Corporation of British Columbia (ICBC).
[3]Liquor—British Columbia Liquor Distribution Branch.
[4]Transportation—British Columbia Railway Company.
[5]Finance—British Columbia Lottery Corporation and BCIF Management Ltd.
[6]Natural Resources—Provincial Capital Commission.
[7]This adjustment is for British Columbia Lottery Corporation transfers to charities and local governments which is shown as a recovery by the Consolidated Revenue Fund.
[8]These adjustments are for two items: (1) to record the earnings of British Columbia Railway Company for the period January 1 to March 31, 2001 ($6 million), which had not been recorded due to the change made this year to use the April 1 to March 31 earnings when preparing the Summary Financial Statements and, (2) Provincial Capital Commission recorded land contributed by Transport Canada as a direct increase to net assets ($2 million).
[9]552513 British Columbia Ltd. (Skeena Cellulose Inc.) no longer met the criteria of a self–supported Crown corporation. It was fully consolidated in the 2000/01 Summary Financial Statements.

Summary Financial Statements
Statement of Tangible Capital Assets[1]
for the Fiscal Year Ended March 31, 2002

In Millions

	Land and Land Improvements[3]	Buildings	Highway Infrastructure	Ferries	Transportation Equipment	Computer Hardware / Software	Other	2002 Total	2001 Total
Historical Cost[2]	$	$	$	$	$	$	$	$	$
Opening cost	788	1,959	9,565	1,271	2,320	723	575	17,201	16,039
Inclusion of Crown corporation previously excluded[4]									125
Additions	56	105	367	56	177	115	69	945	1,269
Disposals and valuation adjustments	(14)	(54)	(60)	(57)	(3)	(64)	(229)	(481)	(232)
	830	2,010	9,872	1,270	2,494	774	415	17,665	17,201
Accumulated Amortization									
Opening balance	68	831	3,431	674	388	444	274	6,110	5,707
Inclusion of Crown corporation previously excluded[4]									22
Amortization expense	5	62	267	44	22	107	49	556	536
Effects of disposals and valuation adjustments		(29)	(11)	(28)		(54)	(85)	(207)	(155)
	73	864	3,687	690	410	497	238	6,459	6,110
Net book value	**757**	**1,146**	**6,185**	**580**	**2,084**	**277**	**177**	**11,206**	**11,091**

[1] This statement includes assets that are held on capital leases at March 31, 2002, at a net book value totalling $76 million (2001: $72 million) which is comprised of: ferries $20 million (2001: $21 million); heavy equipment $4 million (2001: $6 million); and vehicles $52 million (2001: $45 million).

[2] Historical cost includes work-in-progress at March 31, 2002, totalling $427 million (2001: $1,303 million) which is comprised of: buildings $68 million (2001: $35 million); land improvements $7 million (2001: nil); highway infrastructure $126 million (2001: $380 million); ferries $12 million (2001: nil); transportation equipment $175 million (2001: $827 million); computer hardware/software $37 million (2001: $58 million); and specialized equipment $2 million (2001: $3 million).

[3] In 2001/02 the Consolidated Revenue Fund added land improvements to the existing tangible asset classes. See Note 26 Accumulated Surplus (Deficit) for information relating to the impact of this change on prior years.

[4] 552513 British Columbia Ltd. (Skeena Cellulose Inc.) was fully consolidated for the first time in fiscal 2000/01; previously it had been consolidated on the modified equity basis.

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2002

Guaranteed debt represents that debt of municipalities and other governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations and agencies, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions.

	In Millions	
	2002	2001
Taxpayer–supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Municipalities and other local governments		
Municipal Act debentures	2	2
Subtotal, municipalities and other local governments	2	2
Government services		
Homeowner Protection Act loan guarantees	88	56
Subtotal, government services	88	56
Health and education		
Financial Administration Act student aid loans[2]	90	159
Subtotal, health and education	90	159
Economic development		
Securities Act	2	2
Financial Administration Act:		
Emergency Credit Enhancement Program	11	19
Farm Distress Operating Loan Program	3	4
Feeder Association's Loan Guarantee Program	6	5
Skeena Cellulose Inc[3]		36
Miscellaneous guarantees each less than $1 million	1	1
Home Mortgage Assistance Program Act mortgages	18	20
Home Mortgage Assistance Program Act second mortgages[4]	2	3
Subtotal, economic development	43	90
Total taxpayer–supported guaranteed debt	223	307

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2002—Continued

	In Millions	
	2002	2001
Self-supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Economic development		
British Columbia Railway Finance Act capital leases[3]	4	5
Subtotal, economic development	4	5
Utilities		
Hydro and Power Authority Act bonds and debentures[3]	93	149
Subtotal, utilities	93	149
Total self-supported guaranteed debt	97	154
Grand total, all guaranteed debt	320	461
Provision for probable payout	(13)	(14)
Net total, all guaranteed debt[5]	**307**	**447**

[1] Guaranteed debt includes gross principal debt less sinking fund balances, and represents the total amount of contingent liability of the government arising from relevant guarantees.

[2] The government enters into risk sharing agreements with the lending institutions that provide student loans whereby the province guarantees the repayment of specific unpaid student loans under certain circumstances. Lending institutions are required to provide claims evidencing that strict criteria have been met prior to the government providing payment.

[3] See the financial statements of Crown corporations and agencies for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown corporations and agencies and for details of derivative financial products.

[4] The British Columbia Second Mortgage Program was sold to the Bank of Montreal in June 1989, with the condition that the province will buy back any mortgages which may become uncollectible in future years.

[5] Debentures totalling $0.2 million (2001: $0.1 million) have been defeased and are considered extinguished for financial reporting purposes.

Appendix D

Office of the Auditor General: 2002/03 Reports Issued to Date

Report 2

Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service

Report 2

Follow-up of Performance Reports, June 2002

Report 3

A Review of Financial Management Issues in the Office of the Police Complaint Commissioner

Report 4

Monitoring the Government's Finances

Report 5

Managing Contaminated Sites on Provincial Lands

Report 6

Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympics Winter Games

Report 7

Building Better Reports: Our Review of the 2001/02 Reports of Government

Report 8

Follow-up of Performance Reports, January 2003

Report 9

A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

Report 10

Adopting Best Practices in Government Financial Statements 2001/2002

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